ZBIG FOR LIFE

# The Washington Monthly

JUNE 1980/$2

## MOSCOW'S REAL SECRET WEAPON

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# Letters

## Outrages

Your item on our hiring a former Iranian energy official as our chief economist ["Tidbits & Outrages," February] *is* an outrage. It's an outrage for you to engage in easy nationalist slurs simply because being "anti-Iran" is in vogue. It's an outrage to insinuate that a man is somehow not fit to live and work in the United States because he was once employed by the Ayatollah Khomeini. Most of all, it's an outrage not to even attempt to uncover the facts behind the energy-owning Indian tribes' hiring of Ahmed Kooros: that he is an American citizen who has lived and worked in the U.S. before, one of the finest resource economists in the world, and a humble, hard-working professional well-equipped to help the tribes—and the country—plan their energy future.

ED GABRIEL
Washington, D.C.

Charles Peters proposes ["Tilting," March] that Senator Kennedy's campaign manager should distribute copies of Antonia Fraser's *Royal Charles* because it purportedly argues that a "tireless womanizer" can still be a great king, and should suppress my *Kennedy and Roosevelt* because it purportedly depicts Joseph Kennedy as a "vicious anti-Semite."

If Mr. Peters reads *Kennedy and Roosevelt* with care, he will discover it to be an extended treatment of two men evincing considerable complexities and contradictions. Since I know he is capable of cogent analysis, I suspect his intention was to exploit the Fraser book and my own to strike at Senator Kennedy, which is regrettable.

MICHAEL R. BESCHLOSS
Boston, Massachusetts

*The editor replies:*

In neither of these instances did we intend to slur anyone. We saw humor in the news that an ex-employee of the Ayatollah would be advising CERT on how to exploit energy resources. Naturally we didn't really expect Kennedy's campaign manager to go into the book business. We just thought both items were amusing. We regret that you can't always leave 'em all laughing.

## April Better Than March

If I am permitted to write to you about a disagreeable item, I hope that I might also thank you for your good word on my Kennedy and Roosevelt book in your April issue. I have not seen a better synopsis anywhere.

MICHAEL BESCHLOSS

## The Right Spruce Goose Stuff

I just finished Gregg Easterbrook's article on the space shuttle ("The Spruce Goose of Outer Space," April). I was left wondering, who is this "Richard Cooper" he quotes as a former Apollo astronaut? A quick check of NASA's roster turns up no one with that name.

THOMAS J. FRIELING
Bainbridge, Georgia

With great enjoyment and no little sense of sad concurrence, I have just read Easterbrook's article on the space shuttle. I don't know whether the author is an aerospace buff or just a good researcher, like the fellow in the ice-cream suit who wrote *The Right Stuff*, but he got it right.

I've been in the aerospace business 40 years—10 as a military pilot, and 30 designing planes and spacecraft. For the past 20 years I've worked for a company that is now a major contractor on the space shuttle project. I know that, as your article claimed, if you want to get a big, expensive payload into precise orbit for the lowest ton/mile cost, you should use a Titan III—the existing expendable rocket—instead of the space shuttle.

I can no longer find my treasured copy of an earlier *Washington Monthly* gem about the moon race, "From the Bay of Pigs to the Sea of Tranquility." Easterbrook's style and accuracy make me wonder—did he write that too?

(Name and address withheld at author's request)

*The author replies:*

I wish I had. The moon-race article was written by Hugo Young, Byron Silock, and Peter Dunn, three reporters for the *London Sunday Times*. It appeared in April 1970.

As for "Richard Cooper," Mr. Frieling is right—he doesn't exist. The astronaut quoted is Richard Gordon, command module pilot for Apollo 12. In initial drafts of the story, there was a reference to Gordon Cooper, a Mercury astronaut. Somehow the remaining name got synthesized into "Richard Cooper." Perhaps we would have caught it if we'd made the opposite mistake, and called him "Gordon Gordon."


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Published monthly except combined July/August issue by The Washington Monthly Company, 2712 Ontario Road, NW, Washington, D.C. 20009, (202) 462-0128.
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ISSN: No. 0043-0633.

Subscription rates: U.S. and possessions—$21, one year; $36, two years; $49, three years. Foreign, including Canada, $2 per year additional, surface; air mail rates available on request. Back issues, $2.25. Send all remittances and correspondence concerning subscriptions, undelivered copies and changes of address to 2712 Ontario Road, NW, NW, Washington, D.C. 20009. For changes of address please provide six weeks advance notice and return old address label.

The Washington Monthly is indexed in the Book Review Index, the Reader's Guide to Periodical Literature, Public Affairs Information Service, the Social Science Index and Ulrich's International Periodicals directory, and may be obtained on microfilm from University Microfilms International, Ann Arbor, MI, 48106.

Unsolicited manuscripts must be accompanied by a stamped, self-addressed envelope.

Second class postage paid at Washington, D.C. and additional offices.



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VOLUME TWELVE NUMBER FOUR
JUNE 1980

**TILTING AT WINDMILLS** 4

**Moscow's *Real* Secret Weapon**
*by James M. Whitmire*
It could devastate us without a shot being fired—and we're giving it to them. 14

**The Non-Event of the Year**
*by Jonathan Alter*
The true story behind the Weekly After-Dinner Monopoly Game Encouragement Act of 1980. 22

**Zbig for Life?**
*by Robert M. Kaus*
The way the Supreme Court is going, we could be stuck with him. 25

**How to Bribe Judges, Fix Prices, And Delay the Inevitable**
*by Philip Stern*
The American Bar meets the challenges of our times. 34

**My Life in the Reserves**
*by William Baller*
The Adventures of Sgt. Fuzy and His Snoozing Commandos. 42

**What A Way to Win a War!**
*by George Brockway*
We had to destroy the economy in order to save it. 48

**The Cash Connection: How to Make the Mob Miserable**
*by James S. Henry*
Let's make them an offer they can't refuse. 54

**POLITICAL BOOKNOTES** 62

**LETTERS** 1
**MEMO OF THE MONTH** 41
**POLITICAL PUZZLE** 59
**TIDBITS AND OUTRAGES** 33
**WHO'S WHO** 47



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# Tilting at windmills

If you doubt that our leaders take seriously the relationship between government and the arts, attend to this news. President Carter has appointed James E. Barnett to the National Council on the Arts. The art form to which Mr. Barnett has devoted his life is professional wrestling. He is the director of Georgia Championship Wrestling, Championship Wrestling of Florida, and Southeastern Wrestling Corporation of Knoxville. But not to be outdone by the White House, Washington's Mayor Marion Barry has hired Sarah Vass as Special Events Coordinator for the D.C. Commission on Arts and Humanities. Vass has been a disc jockey at a local radio station and a part-time hostess on a local television show. Mayor Barry found these credentials so compelling that he hired Vass two weeks after ordering a hiring freeze throughout the District government. Lest you think the Mayor has been singling out the arts for preferential treatment, you should also know that four days before he was compelled to impose the freeze by a severe budget crisis, he raised the salaries of five of his assistants. . . .

The District government is not providing us with one of the more edifying chapters in the history of public administration. And the local school system is the District at its nadir. Not only does it pay more to its teachers in return for lower-quality instruction than the surrounding jurisdictions, it also boasts the largest administrative staff in the Washington area—with nine administrators per thousand students compared to five in Fairfax County, Virginia, and Montgomery County, Maryland, which have the best schools in the area. . . .

If there is a serious challenge to the seemingly unsurpassable ineptitude of the people who run our schools, it will most likely come from the imaginative folks who run the District's elections. In past years, it has been considered a triumph when they managed to count a third of the ballots within a week after the election. This year, they took a new tack. Instead of delaying the counting, they complicated the balloting. Each voter in the Democratic primary was handed five different computer punch cards. They were, as you can imagine, a challenge to figure out. (One listed prospective convention delegates, segregated by sex, with the injunction that the voter could select no more than seven from each sex.) But the typical voter didn't even get a chance to look at his cards until he had waited up to 45 minutes while election officials struggled to determine his eligibility from perforated computer printouts that were supposed to make the process smooth and swift. These triumphant proceedings were presided over by an elections board chairman who has since resigned under suspicion of various crimes, and who, a week before the election, accepted a free "VIP" flight to Paris courtesy of TWA. . . .

Mayor Barry, his wife Effi, and assistant Ivanhoe Donaldson had planned to take the same free flight, until it was pointed out to them that, what with Donaldson's new raise—he was one of the lucky assistants—and the austerity decreed for other District employees, the journey might upset the voters at an inconvenient time. . . .

•

The privacy laws enacted during the past decade not only jeopardize the government's ability to prosecute criminals, they may even endanger your ability to have a last word



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with your loved ones before you expire at a local hospital. California has a law, passed in 1979, that says a hospital may give out no information about you without your permission. Suppose you're unconscious on arrival. Your wife hurries to the hospital, and what does she find at the information desk? Some listless minion who punches the appropriate keys on the new video display terminal and finally, after coming up with four or five of the usual messages ("No record of this patient—enter alternative spelling of surname") advises her that yes, they have you somewhere in their clutches, but no, they can't tell her anything, because you didn't give them permission. Moral: Try to avoid becoming involuntarily unconscious in California, and do your part to resist encroachment of this particular plague on the rest of the nation. . . .

*The Kansas City Star* reports that a federal official accused of working on private business during working hours is seeking dismissal of the charge, on the grounds that such behavior is "generally accepted" in the bureaucracy. . . .

We carry forward our coverage of the Justice Department's Occupational Health and Physical Fitness Program Facility—a place more commonly known as a "gym"—with this bulletin: Purloined documents reveal that antiquated showerheads in the OHPFPF leak constantly and that "$2,000 has been budgeted to OHPFPF in fiscal 1980 to purchase and install new showerheads." The gym has four showers. . . .

•

For solid, practical tips on how to make your fortune, you probably think you have to subscribe to *Business Week, The Wall Street Journal,* and whatever Howard Ruff is publishing these days. Not so. *The Washington Monthly* will take care of you. Here's the secret:

Next year, go to Churchill Downs in Louisville on the day of the Kentucky Derby and bet on every race. Why? Because the odds are much better than you can get anywhere else. For example, *Genuine Risk,* this year's winner, paid $28.60 to win, $10.60 to place, and $4.40 to show, if you placed your bets at Churchill Downs. But if you did your betting at Off-Track Betting (OTB) in New York, your winnings would have been reduced to $14.80, $5.40, and $3.40, respectively. Why?

New York horseplayers bring the same devotion to the art of handicapping that Michelangelo brought to painting and sculpture. They spend even more time with *The Daily Racing Form* than he spent on his back on the scaffolding of the Sistine Chapel. On the other hand, Churchill Downs on Derby Day is thronged with tens of thousands of people who have never seen a horse race before—people who bring a charming innocence to their selection of a favorite. Perhaps a horse's name reminds them of an almost-forgotten fling, or a violin solo, or just has a comfortable sound. They're likely to bet on that horse. Each such bet increases the total amount or "pool" available to be divided among the less innocent, and that means there will be better odds on the better horses. So here's what you do:

Arrive in Louisville early on the morning of Derby Day. (This in itself will save you the fortune you would otherwise have to spend for a room in a Louisville hotel, where the rates during Derby Week would stagger the Aga Khan.) Spend some time in the morning studying the racing form—but not too much time, just enough to learn the consensus picks of the experts for each race. Don't bet them to finish first—"win" betting is only for those who can afford to lose. Instead, make "place" and "show" bets. Add half of your previous winnings to your bets on each race. And remember *The Washington Monthly* in your will. On the other hand, if you're losing after the third race, disregard my advice, save $2 to bet on your own choice for the Derby, and devote the rest of the day to enjoying the spectacle. . . .

Another helpful tip: When your friendly book club offers you a "bonus" or "dividend" book, pay no heed. It's a con game. Originally it wasn't. Such books were given to members free after two or three regular selections, just as bartenders used to bounce your third or fourth beer. But now you pay for the bonus or dividend books, and you pay too much—because most of them are



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"remainders," publishers' overstocks unloaded at below-cost and often available in bookstores (especially the chains) for even less than the book clubs charge for "shipping and handling". . . .

•

George Ball tells a revealing story of how Zbigniew Brzezinski wrested control of Iranian policy from Cyrus Vance. At a critical period during the Iranian revolution, when Vance was traveling to and from the Middle East, Brzezinski took over. What could be more natural—Zbig was meeting with the president every morning, after all, and you can hardly bring the government to a halt waiting for Cy to catch up with his messages. (Unfortunately, Brzezinski's most trusted source was the Shah's ambassador, Ardeshir Zahedi, a man as close to the pulse of the Iranians as Anna Chennault is to the Chinese.) Ball has correctly cautioned Ed Muskie to resist becoming a globetrotter—advice commonly ignored by those who either don't understand how power is acquired in this town, or who forget, at their peril.

The fact is that those who really covet power are more than eager to stay here, chained to their desks, while the other fellow gets the glamorous trips. I discovered this phenomenon at work when I first arrived in Washington to work at the Peace Corps. I found that my new boss, Sargent Shriver, and three of his most important aides had departed on an extended trip around the world, leaving the agency in the hands of a lower-ranking subordinate. Lo and behold, when they returned they found that the subordinate had managed to make himself much more indispensable than they were. Although Shriver continued to speak for the Peace Corps, the agency remained in many respects under the effective control of the assistant who had humbly stayed behind. The catch was that the assistant made some bad decisions because he didn't travel, didn't know what was going on in the field, and relied too much on Zahedis to tell him. . . .

•

We have run so many articles (including two in this issue) attacking lawyers that I sometimes feel a pang of guilt, because I owe a considerable debt to my former profession. I learned more about editing from lawyers than from journalists. This is not, as *Washington Monthly* writers will attest, an unmixed blessing, but its good side is this: In a law firm, you learn to argue a case with your partners before you present it in court, defending your facts and conclusions against the best arguments your associates can muster. That process may leave some bruised egos, but it helps to eliminate unexamined assumptions and sloppy thinking. We try to use that approach at *The Washington Monthly* with every article we publish. Elsewhere, it seems to me, the strong tendency is to limit editing to matters of style and organization; the more conscientious publications also double-check facts. I think argument supplies another important ingredient of responsible editing, and I wish more editors would try it.

Its absence is particularly tragic in the case of reporters who acquire the reputation of being Good Writers. Once that reputation is secure, the Good Writer begins to think of himself as beyond editing of any kind. His stylistic weaknesses tend to multiply, but more importantly, his mind slowly turns into something resembling Cream of Wheat because nobody dares to argue with him. The truth is, few of us think so clearly that we can't be improved by having our thinking challenged. . . .

•

General Edward C. Meyer, the Army's Chief of Staff, has a good idea. To help keep capable people from leaving the service, the government would offer to pay the costs of their children's college education. Meyer suggests that such an offer should be contingent on 15 years' service—and I would add that the payments should continue only as long as service continues (barring death or disability, of course).

This idea could easily be extended to federal service generally, and should be. Instead of automatically jacking up salaries every year for everyone, regardless of need, the government could keep salary levels more stable



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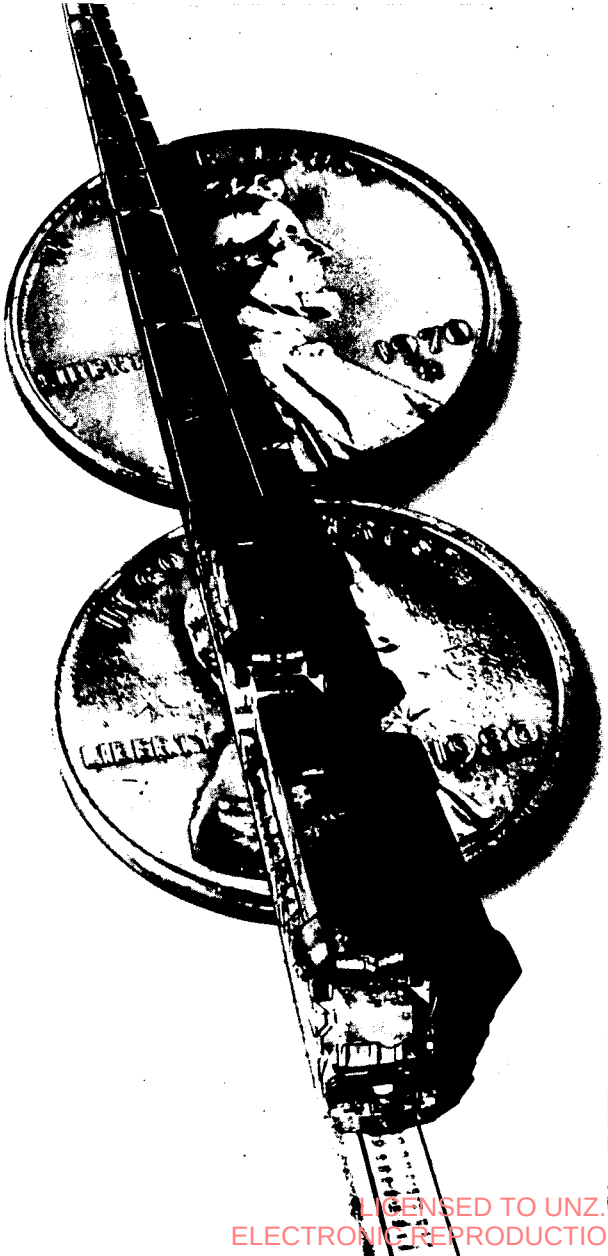

# Fact:

Rail costs are a smaller share of the delivered price of coal today than they were 10 years ago.

The United States has enough coal

Association of Ameri

Railroads Building, W

# Surprise

Railroads move a ton of coal for an average charg of less than 2¢ a mile

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while offering to pay the cost of children's education. Anxiety about coping with the cost of college is the main reason dedicated people agitate for higher pay and think they must leave the government if they don't get it. . . .

•

Ronald Reagan says he wants to have cabinet government. He says he would have weekly cabinet meetings, "actual working sessions" which would result in "meaningful decisions."

How many presidents have come to office burdened by this idiotic notion? The answer: Every one of them since FDR. He was the last president who took office knowing something about how the executive branch really worked, because he had served in it under Woodrow Wilson. Presidents without that kind of experience don't understand the federal bureaucracy, and what they must do to control it. (Ike at least understood the military bureaucracy and did the best job of controlling it of any recent president.). . .

Several years ago, we ran an article on polling called "The German Shepherd Factor." We made the point that people with large surly dogs were unlikely to be included in political polls. These days, political polls are rarely conducted face-to-face, but we are glad to report that The German Shepherd Factor is alive and well. John Tierney, writing in *The Washington Star* about his experiences as a census-taker, recalls a confrontation:

" 'That dog,' the neighbor said, 'he's big enough to tear off the chain and go after you.' I decided to enumerate elsewhere."

We now have an insight on the much-criticized omissions of the 1980 census. The owners of German Shepherds have escaped scrutiny. But a Presidential Commission on Fierce Dogs should be able to figure out the characteristics of the owners and adjust the census findings accordingly. . . .

•

Alice Z. Cuneo of *The San Jose News* reports that California welfare workers are subverting the efforts of voluntary agencies to put Indochinese refugees to work. The welfare workers, she writes, take refugees aside and explain to them that federal assistance money is theirs for the asking, and if they don't take it, "somebody else is going to get it". . . .

•

Did you know that some hospitals charge you not for the actual lab work, drugs and other medical supplies used in your treatment but for an *average* daily amount of those items consumed by all patients? According to my friend Fanny Seiler, of *The Charleston Gazette*, a patient at the Charleston Area Medical Center found she had been billed $542.62 for services she hadn't received. The hospital explained the averaging scheme, and said that insurance companies had agreed to be billed that way, but an individual not covered by health insurance could choose to pay only his actual costs. This assumes the patient is alert enough to notice the fine print at the bottom of the bill. . . .

•

Edward Kennedy has demonstrated the depth of his commitment to battling inflation by coming out for twice-yearly cost-of-living pension increases for retired federal employees. Since these raises are among the more obviously inflationary policies of the government, why does Kennedy support them? Mike Causey, *The Washington Post's* civil-service columnist, may have the explanation. He published a questionnaire asking readers' opinions of a proposed cutback of cost-of-living increases—a *modest* cutback from twice a year to once. The response from 22,000 readers (the most mail the *Post* has ever received) was 98 percent opposed. Those are the kinds of electoral tea leaves that Kennedy can read. With their own dedication to principle being what it is, Carter and Reagan will doubtless join him soon. . . .

*The Washington Post* is segregated. Can't be, you say. All those nice liberal folks over there. Well, they *are* nice folks, but it's a fact that they mostly cover white social events in the "Style" section and black events in a column called "Going Places." This sin is



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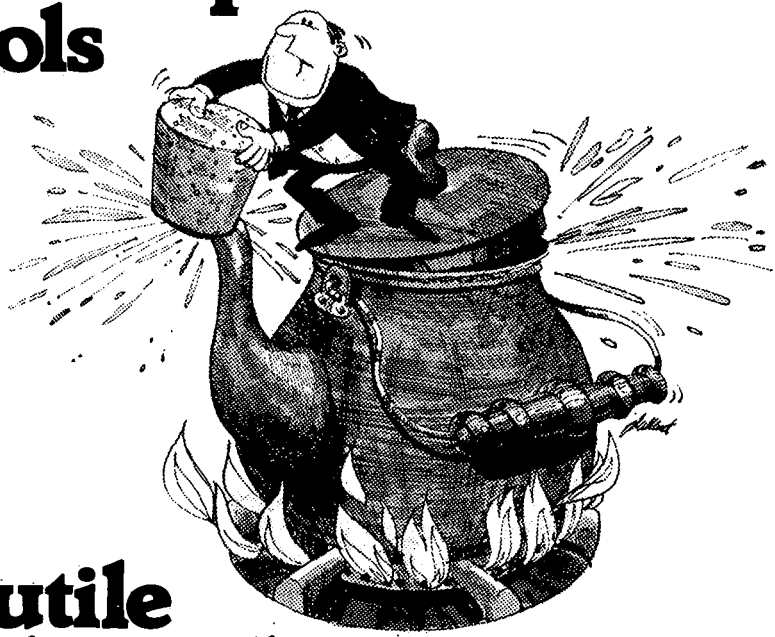
# Wage and price controls



# ...as futile as corking the spout.

Attempting to halt inflation with wage and price controls is like trying to stop a teakettle from boiling over by inserting a cork in the spout! In both cases, the *real* solution is to turn down the heat.

The United States has used wage and price controls three times in the last 40 years without success. During World War II, prices and wages rose almost 17 percent under controls. In 1947, the cost of living jumped 20 percent.

Controls were imposed in August 1971 and the consumer price index rose 17.9 percent during the 2½-year period they were in effect. Double-digit inflation followed their removal. Even during the Korean War when wage controls were used for about a year and a half, the Consumer Price Index continued to rise—during and after the period of controls.

Controls cannot halt inflation. They postpone for a brief time the inevitable increases in the cost of living brought about by uncontrolled government spending.

The inflation teakettle continues to boil while too many public officials seek refuge in the bankrupt policy of wage and price controls rather than acknowledge that the only way to end inflation is to *reduce* spending, *reduce* taxes and *balance* the budget.

Those are the steps necessary to rescue the country from our economic nightmare. Wage and price controls are *not* the solution. Fiscal discipline is the *only* answer. Amway Corporation, Ada, MI 49355.

Amway

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*One of a series of messages to stimulate public dialogue about significant national issues.*

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compounded by the fact that "Going Places" is written like the old *Tan* magazine, in breathless awe of blacks who imitate the white upper crust. For example, "Going Places" lauds one woman for being one of the few blacks to break into the "Green Book" (the mostly-WASP social register of Washington) and another for owning a Rolls-Royce, a Mercedes, and a Porsche. . . .

•

Self-pity is one of the fringe benefits of hard work. "I'm doing the work of three people," we sigh to ourselves. Michael Sovern, former provost of Columbia University, is not content with sighing. After ascending to the university's presidency, he replaced himself with three provosts. . . . While we're on the subject of conceptual breakthroughs in academia, let it be noted that George Washington University has established a Department of Human Kinetics and Leisure Studies. (Only joggers need apply?) This may not represent the kind of quantum leap that marked the advent of the first Department of Audio-Visual Education, but it does offer students a place to concentrate on the major preoccupation of America—the creation and use of leisure time. I'd guess that the average American office worker spends two thirds of his working hours contemplating plans for his off-hours and, if his job description permits, converting working into leisure hours through the simple device of official travel.

This trend has helped spawn a new racket similar to the group insurance scam exposed by Bonnie Goldstein in this magazine back in February. Trade associations sell their membership lists to travel agents, who fill the mails with colorful brochures advertising exotic trips available to members at "bargain" rates. The real bargain goes to the executives of the associations providing the membership lists. In return for their kindness, the travel agents ship them off on free "inspection" trips to the places recommended for members. Sounds reasonable, doesn't it? I mean, who could suggest a trip to London without first seeing for yourself that London is still there?

Sad to say, the most scandalous of these rackets is conducted by newspapers, who would rail against the slightest conflict of interest inherent in the travels of public officials but think nothing of using their "news" columns to promote travel, in return for free trips for reporters, editors, and advertising salespeople. . . .

•

Why have the presidential primaries multiplied so dramatically during the past 20 years? There are lots of weighty theories around, but they all overlook the obvious reason.

It's boredom. The essence of political reporting is the story called "let's you and him fight." Political reporters wanted more of these stories to report, and readers wanted more such stories to read. In 1960, there were maybe three mornings when you awoke with the knowledge that there would be an important primary-election story in the paper. Now there must be at least 20. . . .

•

Just can't for the life life of me understand why the Yugoslavs were upset that Carter sent Miss Lillian to President Tito's funeral last month. After all, she was the official representative to Frank Sinatra's birthday party in Las Vegas. . . .

•

Despite some reform, taxes are still too much of a burden for people just above the poverty line. According to David Wilson of *The Boston Globe*, a single person earning $6,812 a year in Massachusetts pays $1,225 directly to the state and federal governments in income and payroll taxes, and another $1,544 in indirect taxes. That leaves $336.91 per month for all expenses, suggesting that such things such as heat, transportation, electricity, and medical care would be classified as luxuries. . . . In the past I've chided newspapers for their curious standards of moral decency. Most of them freely censor movie ads, while printing, without hesitation or alteration, every cigarette ad aimed at



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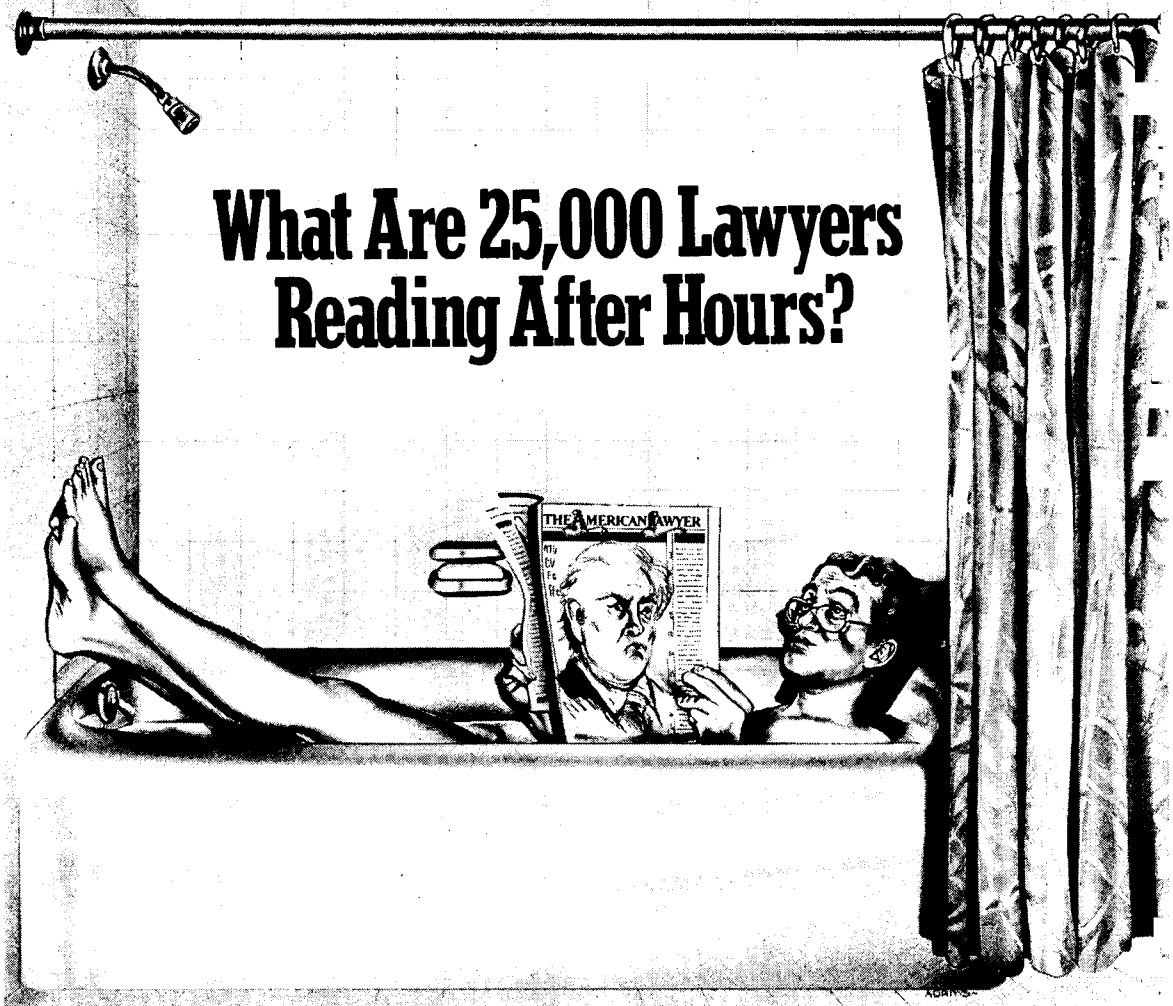
# What Are 25,000 Lawyers Reading After Hours?

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luring young people into a lethal habit. *The Washington Post* has established new standards by refusing to run an ad for a film called "The Apple Game." The Czech producers of the film struggled for years to get permission to show the movie abroad. They finally succeeded, only to run afoul of some gnome at the *Post* who objected to an ad showing the belly of a pregnant woman. Rest easy, America. Even if Prague's censors are going soft, they're still on full alert at the *Post*. . . . Ralph Sampson, the University of Virginia's freshman basketball star, recently turned down an offer from the Boston Celtics to leave college and accept a $500,000-a-year contract. Sampson said he was flattered, but he was in no hurry to make a fortune, he was enjoying college, and he didn't want to turn his back on the university people who had been good to him. The prevailing values of professional athletics were best expressed in the response of Celtics boss Red Auerbach:

"Give up well in excess of half-a-million dollars, to play college basketball? Ludicrous!". . . .

•

Has anyone wondered why Col. Charles Beckwith, commander of the Iran raid, said "it wasn't my responsibility" to destroy secret documents in the abandoned helicopters? How can anything not be the responsibility of the commander?

The reason is this: there was no commander on the raid, despite all the publicity crediting that role to Beckwith. A Marine colonel was in charge of the helicopters. An Air Force colonel was in charge of the C-130 transport planes. A Navy officer was in charge of the fighter cover. Beckwith was in charge of the commandos. *Nobody* had overall responsibility on the scene.

So if you liked the Iran raid, you'll love the Rapid Deployment Force. Remember RDF—the new mobile military concept designed to make us awesome in the Persian Gulf? Reporter Thomas Toch has been looking into RDF for *The Washington Monthly*, and what he's found suggests that the death in the desert of eight brave men was no fluke. Sadly, it was the prototype for future fiascos, the product of a blundering system which the Pentagon confidently plans to institutionalize with RDF.

To buy off the four little empires within the Pentagon, RDF has been organized like a Faculty Review Committee. The Navy commands RDF's ships. The Air Force commands its planes. The Army provides most of the armor, and the Marines supply most of the troops. The nominal "commander" of the combined force, Gen. Paul Kelly, does not have final authority over how the various elements are to be assembled and used. He must first obtain the consent of officers from each of the services.

For instance, few troops will be permanently assigned to RDF. Units from the four services will be "designated" as RDF "candidates." Before getting geared up for action, Kelly will have to "request" the commanders of the designated troops to assign them to him. Not "order"—*request*. Robert Pranger of the pro-military American Enterprise Institute, who has consulted with Kelly on RDF command structure, told Toch: "It will require a lot of bureaucratic negotiation in a time of crisis."

That's not all. RDF is headquartered at MacDill Air Force Base near Tampa. The base comes under the jurisdiction of the Readiness Command, an existing unit responsible for reinforcing NATO. In addition to not commanding RDF's four elements, Kelly must report to REDCOM's commander, who outranks him. Any troops assigned to RDF are technically REDCOM troops.

This isn't a force, it's a filing cabinet. I can't imagine such a memorandum-layered hierarchy deciding when to sound Taps, let alone responding smoothly and decisively to an emergency. Yet the Pentagon's fiefdoms are delighted. The Navy gets new ships for "prepositioning." The Army gets more XM-1 tanks. The Air Force gets a new cargo plane. The Marines get new assault vehicles and vertical takeoff fighters. And the civilians at the Pentagon get a fresh supply of paper clips and staples. Everybody gets a new layer of liaison and logistics. Everybody gets something—except a better defense system.

—*Charles Peters*



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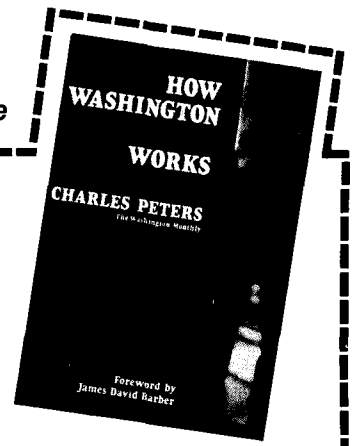


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# Moscow's REAL Secret Weapon

by James M. Whitmire

In the wake of Afghanistan, the United States and the Soviet Union are back to strutting around each other like gunfighters at high noon, each ready to reach for the trigger. The Pentagon talks of fearsome new weapons: MX missiles, neutron bombs, particle beams. Everyone assumes the Soviets are plotting ghastly new weapons as well. The truth is, one is already in place.

But you won't find this new secret weapon in the Red Army's arsenal, because it's not a bomb or a chemical. It's worse. It could devastate the West without a shot being fired. Incredibly, it is a weapon we are not only constructing for the Russians—but paying for as well.

The weapon? Debt. Quietly, assiduously, Western banks since the mid-1970s have allowed the Soviet bloc to pile up $60 billion to $80 billion in outstanding debt, according to *The Washington Monthly*'s sources. The magnitude of this debt is such that a Soviet default might spark a financial panic capable of collapsing the capitalist banking system.

*James M. Whitmire is a consultant with International Business Services, a Washington firm. He has extensive personal experience with Soviet affairs, and has taught Russian at the University of Virginia.*

Most of the industrial goods "sold" to the Soviet bloc in recent years have not been paid for in hard currency, but financed by loans from the U.S. government or banks. These loans increase inflation in the West, while gifting the Soviet bloc with priceless technology and machinery in return for the unenforceable promise that someday they will pay us back.

There is growing concern within the international community that Soviet bloc countries will never be capable of generating enough hard currency to repay their debts—or, more chilling, have no intention of repaying in the first place.

The Soviets are almost certain, at some point, to use the threat of default as a lever to gain political concessions from the West. Should U.S.-U.S.S.R. relations ever decline into desperate straits, the Soviets could simply defy their benefactors and cancel the debt outright.

What's more, lending to the Soviet bloc continues at a furious pace, despite the loans' questionable merit from either a political or financial point of view. Western bankers, caught in an "undertow syndrome" of sending good money after bad, seem determined to make our position even weaker.



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## On Our Assets

In 1977 the Senate Foreign Relations Committee concluded that the entire international financial system could crumble beneath the weight of one or two major defaults, defaults that would send banks tumbling into each other like freeway traffic hitting a patch of ice.

The committee had in mind defaults involving far less money than is now loaned through COMECON to the Soviet bloc. COMECON is a Common-Market-like agency that coordinates economic policy for the Soviet Union and its East European client states. (Though technically loans are made to individual COMECON members like Hungary, Russian planners wield almost total control over the organization and its use of funds.)

The specter of colossal default was raised last November when Iran announced that it would not repay the $10 billion it owes American banks. A World Bank officer told *The Washington Post* that this action, "the largest default in financial history," put the banking system to "its most severe test in recent times." Fortunately, the shock was absorbed with minimal funk, largely because the Iranians were so careless as to have left $8 billion in assets in American banks.

This episode had the salutary effect of stimulating some thought on the consequences of large defaults. If Iran's net default of $2 billion put a severe strain on the system, what might be the impact of a Soviet-bloc default involving amounts 30 to 40 times greater? (The Soviets are not so careless as to leave much money in our hands.)

So far, the only public debate on East-West trade involves the politics of the exchange. There is contention about whether our bulging grain exports serve to shore up the inefficient Soviet system and strengthen the Kremlin elite's grip on power. There is strategic argument about whether transferring advanced technology contributes to our adversary's military power. But there's never been debate over the simple fact that the Soviet bloc, in effect, does not pay for what it gets. The West sends machines and grain, and receives *nothing* in return—except the illusion of prosperity for the farmers and firms being paid in funny-money originating on the Federal Reserve's press.

Washington officially downplays the prospect of a COMECON default, but anxious whispering can be heard. "We should have been a lot more cautious," says an informed State Department official. "They've got us where they want us now." One source interviewed for this article referred to a conversation he had with National Security Advisor Zbigniew Brzezinski, in which Brzezinski admitted to worrying "quite a bit" about the political leverage the Soviets gain through their debt. "Indebtedness often increases the leverage of the debtor and decreases the leverage of the creditor," Brzezinski is quoted as saying. (He declined to be interviewed for this article.) Noting that the English, West Germans, and Italians have loaned especially large sums to the Soviet bloc, Brzezinski is quoted as concluding, "If a COMECON country defaulted, it could create considerable problems."

## Leave Me a Loan

Government officials also worry that exposing such a predicament to abrasive public response would play into Soviet hands, by increasing the West's sense of weakness and vulnerability. When pressed, officials at the departments of Commerce and State admit that the growing COMECON debt is ominous, but they invariably change the subject by pointing to the much larger—and equally uninsured—debt owed by Third World nations.

Credit outstanding to "less-developed countries" has risen from $137 billion in 1974 to more than $300 billion today. The prospect of a Third World default, officials contend, is a greater cause for alarm than possible Soviet misbehavior.

The Third World debt is, of course, troubling. But poor nations are not a rigid ideological bloc acting cohesively. Far more important, they are not our avowed political and economic competitors. They do not have large, potent armies and have not preoccupied themselves with devising new instruments of pressure and coercion, as have the Soviets.

The West's tenuous grasp of the COMECON debt problem is indicated by the fact


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that no one can agree on how much credit actually has been extended. The most conservative estimate is that the debt has increased from less than $10 billion in the early 1970s, to $18 billion in 1974, to $48 billion in 1977—a pace many times greater than inflation. It hovers between $60 billion and $80 billion today—an amount equal to the total assets of Exxon and General Motors combined.

Back in 1976 Henry Kissinger described the debt as "sudden" and "striking." Yet it continued to climb, unopposed. Allen Lenz of Commerce's Bureau of East-West Trade (which supports the above low-end estimates) predicts that by 1985 Soviet-bloc borrowing could hit $108 billion. Miles Costick, director of the conservative Institute on Strategic Trade, says Commerce deliberately deflates the debt figure because of its desire to "generate trade at any price." The current trends, Costick believes, point to a debt of at least $200 billion by 1990—$45 billion of which, he says, will be held by Russia itself. It seems that if only Lee Iacocca could move Chrysler headquarters to Kiev, his money problems would be solved; he could simply plug into COMECON's free-flowing line of Western credit.

## Autarkic Child

COMECON debt is a recent development because, until the early 1970s, the Soviets didn't want to borrow money. The Soviet regime traditionally has been highly autarkic, exhibiting an aversion to debt that one economist described as "positively Victorian." Besides their doctrinaire position that the presence of capitalist financiers would corrupt Marxist purity, Kremlin leaders believed that if Eastern economies were based on someone else's money, they could never be self-sufficient or secure.

On the rare occasions Soviet-bloc countries borrowed, they were scrupulous about meeting interest and repayment timetables, an International Monetary Fund official says. Thus, when economic difficulties forced them into the credit market in the early 1970s, Western bankers were impressed by their impeccable borrowing records. The bankers declared COMECON countries to be good risks.

Two types of loans are extended to COMECON nations. The first is government-supplied "credits"—direct loans from the U.S. Treasury, administered by the Export-Import Bank. Ex-Im "credits" can be used only for the purchase of American goods, and are "tied" to a specific commodity or project. An Ex-Im loan to buy American computers, for instance, is essentially a payment from the Treasury to the computer firm, with money never coming to rest in COMECON accounts. Repayments are made from COMECON to the Treasury. If the debtor does not pay, the U.S. taxpayer takes the loss directly.

A State Department source estimates that about one-third of COMECON's loans are credits from the Ex-Im Bank. One drawback of the credits is that Ex-Im contracts include human rights provisions, similar to those in the Helsinki Pact, that debtor countries are supposed to observe. There are no such provisions in regular commercial loans, which make up the remaining two-thirds of the East's borrowing.

Regular commercial loans are the same as those extended to companies. "When the Soviet Union goes to Chase Manhattan," says another State Department officer, "they're treated just like Ford Motor Company, or any private customer." This means, first, that private loans are "not a matter of official government policy," the officer explained. "The banks don't have to make them, and Washington doesn't stop them from making them." It also means these arrangements enjoy the same secrecy that surrounds other private loans.

COMECON's early-1970s arrival on the credit market couldn't have come at a better time from the East's perspective, because our commercial banks were inordinately liquid. Following the 1973 quadrupling of OPEC oil prices, Arab petrodollars swelled Western banks; simultaneously, because of the 1974-1975 recession, private-sector demand for loans was low. The banks were eager to find outlets for idle capital.

Most of the banks granting COMECON loans are the same ones involved in other aspects of the international credit market. According to an informed source, Citicorp is the largest lender, followed (in rough order) by Morgan Guaranty Trust, Chase Manhattan, and Hanover Trust. Many of



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their loans are not for specific purposes, like the credits Ex-Im extends, but "untied" loans. In this case, the bank sends a lump sum directly to the central bank of the COMECON member nation. The COMECON nation then uses the money as it sees fit while (in theory at least) repaying the lender in regular installments.

Specific loans are often tied to a project—say, the development of a coal field—whose completion will enhance the debtor nation's ability to repay. Untied loans can be used for anything: to cover balance-of-payment deficits, to buy hard currency for new purchases, or in some cases, to meet the payments on previous loans. This makes them the most precarious of all. Because they are entirely uninsured, they are called "sovereign risk" loans—loans against the creditworthiness of the country itself. Banks usually form syndicates (risk-sharing pools) on sovereign risk loans, so that in case of trouble, the lead bank does not suffer all the loss. "For all intents and purposes, these loans are made solely on faith, with no recourse if the Soviets refuse to pay," says a State Department analyst. "I sure hope Citicorp knows what it's doing," he adds.

Most of the initial loans were five- to seven-year agreements on terms highly favorable to COMECON. Sources have told me that the ease with which COMECON obtained its loans was a revelation to Eastern governments. So were the full implications of the arrangement. After finally tasting the forbidden fruit of Western credit, COMECON nations realized they could never be forced to repay. What once seemed like a flirtation with capitalist corruption began to look like a fine means to drain strength from the crumbling bourgeois powers.

## Our Partner, Leonid

What began as a civilized courtship has degenerated into a shotgun marriage for Western banks. COMECON nations have begun asking that their debts be "rescheduled," stretching out repayment timetables and effectively lowering interest rates. Poland, the second-largest and most "over-extended" of COMECON borrowers (the Soviet Union holds the most loans, followed by Poland, East Germany, and Hungary), has been heavily rescheduled. Even if it wanted to repay, it lacks the money to do so. It seems only a matter of time before other COMECON nations whose seven-year loans are coming due make the same "request."

> If Iran's net default of $2 billion put a "severe strain" on Western banks, what would be the impact of a Soviet-bloc default involving amounts 30 to 40 times greater?

Poland, according to an IMF source, recently came perilously close to default. It owes the West $18.5 billion. Debt service on that amount—or the interest needed to continue the loan, without retiring any principal—is $4.5 billion. Poland couldn't even come up with the debt service; the Soviet Union stepped in and covered $1 billion of the amount with gold.

In spite of such signs, bankers are willing to reschedule. The relationship is propelled by an internal dynamic that makes Western banks feel obliged to maintain the flow of loans, even against their better judgment. A very large debtor has substantial influence over his creditor, for he can undermine or even destroy the bank by refusing to pay. Nearly every major Western bank is involved in a syndicate that is on the hook: so the entire system, not just individual banks, is threatened. It recalls the adage, "Make a small loan and you have a debtor. Make a large loan, and you have a partner."

Banks often take the easy way out and reschedule loans because they seek to maintain what some disparagingly refer to


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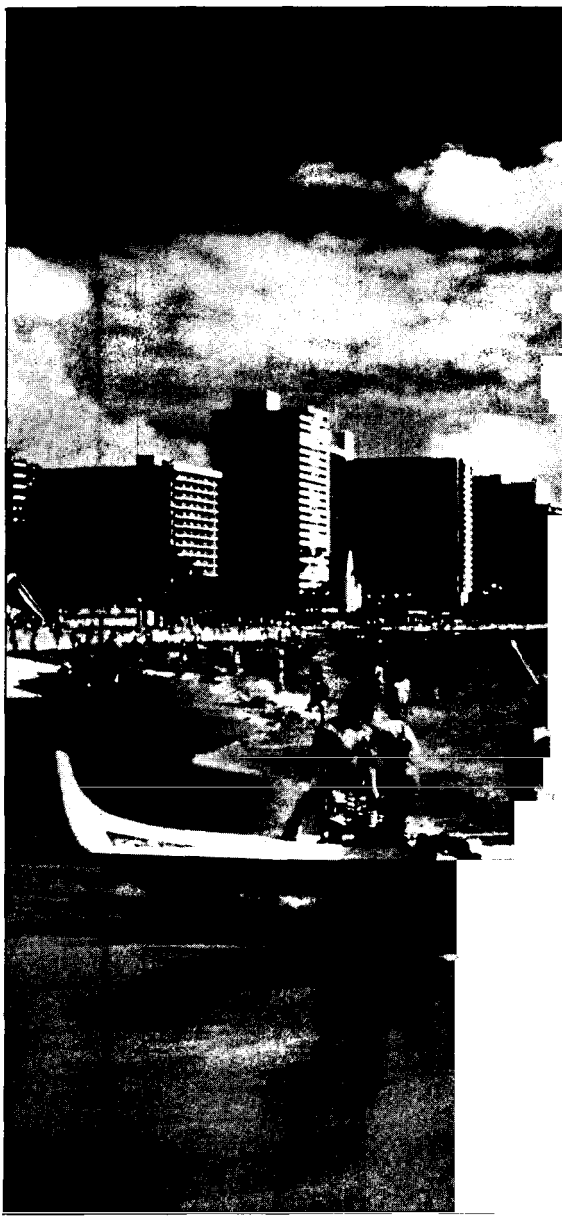
as "the illusion of liquidity." When a large debtor can't or won't repay, banks are unwilling to force him into default. As is well known, banks are in the business of loaning their deposits (assets). They are required by law to keep only about seven percent of the money they "have" on hand for demand-withdrawals. The collapse of any large debtor like COMECON would inevitably cause depositors to demand their money back, which would drain the federal deposit-insurance pools, activate other risk-sharing syndicates, and spread the chaos further.

This prospect, one expert explains, lends overriding importance to "preventing nations from dropping out of the system altogether." It is, he says, the "symbolic effect of debt repudiation that is most feared."

As Richards Portes of the University of London points out, "If creditors force a *country* into default, they are in a fundamentally weak position, because the sanctions available to them are limited." Obviously, it would not be possible to "repossess" the tractors, computers, grain, and other goods already shipped to the Soviet bloc. A sheriff's deputy can't serve papers on a factory in Minsk.

It would seem that, even if he were afraid to cut his losses and call in existing COMECON paper, a timid banker would refrain from making fresh loans. But observers believe the banking community is caught in the "undertow syndrome," swirling ever deeper into trouble. Bankers tend to see no alternative to being sucked under the tide of more COMECON loans. As far back as 1976, *Financial Times* reported that banks making uninsured loans to the Soviet bloc were "likely to make every effort to continue to lend in order to protect the loans they have already made." Each individual banker—afraid to go public, cut his losses, and take the heat now—opts to postpone the crisis farther into the future with more doomed loans. It is a classic illustration of sending good money after bad.



## Cold, Hard Kalashnikovs

While Western governments feign ignorance of their predicament, the Soviet bloc is fully aware of it. Although insiders widely believe that COMECON has no intention of honoring its debts, it surely will not repudiate them as long as there is no crackdown on repayment. To do so now would mean needless martyrdom for the goose that lays the golden egg—why refuse to accept this steady stream of gifts from the West? This is why, some believe, the Soviets were willing to make good some of Poland's debt service. As long as new loans continue, they probably would



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PHOTOGRAPH OF BREZHNEV BY HENRI BUREAU /SYGMA

make the same gesture again. But they are testing COMECON's tactical leverage in subtle fashion, trying to "reschedule" rather than repay problem debts like Poland's.

Even if, in spite of the evidence, you refuse to believe that the Soviets have been planning all along not to honor COMECON debts, you cannot help but worry that they will be incapable of repayment. The rate of credit growth far exceeds the rate of real economic growth in the East. COMECON centralized planning, which has met its initial goals of some crude capital formation, has proved incompetent at managing a sophisticated modern economy. Central planners are finding it one thing to churn out carload after carload of steel, and quite another to fashion advanced computers. As a result, Soviet-bloc GNP growth rates have fallen off recently—for instance, Russia's is


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growing at a rate of only 2.5 percent compared to 6 percent in 1970. The new rate is Russia's "lowest growth since the war," a State Department economist says. At the same time, Eastern worker productivity is declining; shortages, supply bottlenecks, and inflation are widespread throughout COMECON.

The only way the Soviet bloc could raise enough hard currency to satisfy its debts would be to sell products to the West. But Eastern countries produce few goods of sufficient quality to compete on world markets. The only high-quality Russian exports seem to be vodka and weapons. Although it may be fine irony that we drown our sorrows in Soviet liquor, not even Armand Hammer would suggest we stock our armies with AK-47s.

As a result of Soviet-bloc economic inefficiency, "East-West" trade in fact moves mostly in one direction—toward the East. With the exception of Hungary, all COMECON nations are net importers of food. With the exception of the Soviet Union, all are net importers of energy. While goods in this "trade" are moving East, money does not move in any meaningful way. We create the loans to "pay" ourselves for what we send.

Right now the Soviet Union is well-stocked with gold, which could be used to cover some of the debt. Bankers maintain that all COMECON loans are backed by an "implicit guarantee" from the Soviets. Nowhere, they admit, is this guarantee written down. "It's never been forcibly exercised by a bank," says one informed official, "so it's impossible to tell if the implicit guarantee has any explicit value." Bankers also contend that, even if the gold were used up, the vast Soviet oil reserves stand as collateral for COMECON borrowing. Obviously, they prefer not to speculate about the logistical specifics of foreclosing on that oil. But even if the Russians *wanted* to give us oil to cover their debts, it's questionable that they could extract it fast enough. According to Central Intelligence Agency estimates, by 1982 Russia will be forced to begin importing 700,000 barrels of oil a day, just to meet its own needs. At the current price of $30 a barrel (certain to rise by 1982), that would cost the Soviets $7.6 billion a year. Can they obtain enough hard currency to repay COMECON debt to the West *and* cover this impending new expense?

## *Blitzkredit*

The economic and political risks of the existing Soviet-bloc debt present immediate problems of frightening proportions. But unless bankers cease making new and equally hopeless loans to the East, things could become far worse. Unfortunately, the current recession descending on the U.S.—which is predicted to take on global proportions later in the year—presents the Soviets with an ideal opportunity to throw a full-court press at Western banks. It would be the financial equivalent of the infamous 1972 grain deals, when the Soviets, taking advantage of the open access to commodities markets, nearly cornered the grain supply. They used our own commodities practices—which provide little government regulation of the markets and allow brokers to buy up grain without revealing the identity of their clients—against us. The financial system is vulnerable to similar manipulation. Here's how it might work:

The private international credit market, like the grain market, is largely unregulated. Its transactions—especially knowledge of who is lending how much to whom—are shrouded in jealous secrecy. During the coming recession, when banks will once again be highly liquid and lack loan demand, the Soviets would blitz the credit markets, soaking up every loan available. (Since the new round of oil price increases, it has been estimated that OPEC will take in $300 billion in 1980, most of which will end up in Western banks.) Belatedly comparing notes, the bankers would find themselves accomplices to the runaway COMECON debt. Such a debt—say, pushed to about $150 billion—would be viewed, and rightly so, as a potential Dunkirk for Western banks.

Experts disagree on the susceptibility of the banking community to such *blitzkredit* tactics. Georgetown University economist Stanislaw Wasowski, an East-West trade authority, considers the blitz analogy alarmist. "While the banking community presents a closed front to the outside world," he says, "it is relatively small—perhaps a few thousand key bankers—and highly cohesive, with elaborate channels of communication." Wasowski believes word



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of a Soviet borrowing advance would spread quickly within this fraternity, causing bankers to react by moderating the eastward flow of funds.

This analysis overlooks the possibility that the Soviets will shrewdly wait for a recession to saddle lenders with excess capital. In that environment, bankers compete stridently for supposedly safe ways to unload their money. They would have an incentive to keep quiet about increased COMECON borrowing, if only to avoid public criticism. Does this sound implausible? It worked for the Soviet bloc during the 1974-75 recession. Bankers belonged to the same fraternity then, and whatever tips they passed to their brothers didn't prevent the initial round of bad loans from being made.

## All Others Pay Cash

Whatever happens in the future, the threat posed by the existing Soviet bloc debt is real and immediate. The Soviets are beginning to master the classic nuances of manipulating banks. They are learning to finesse and demur, allowing the bureaucratic momentum of good money after bad to work its magic unassisted.

The West shows little inclination to call in Soviet-bloc paper now, thus forcing the inevitable default. There would be a tremendous disruption of banks and business, but at least the losses would be cut and finished with. (A few losses could be avoided, for some of the COMECON debt involves goods not yet delivered.) Failing foreclosure, our only retaliatory threat is to cut off grain and technology shipments to the East.

(You may think this has already been done because of the alleged "grain embargo" imposed after Afghanistan. In fact, the "embargo" applies only to *additional tons* beyond the eight million metric tons the U.S. promised to export to Russia each year as part of the 1975 grain agreements. Shipments of that grain continue.)

Conventional wisdom holds that the prospect of a cutoff in grain, computers, and spare parts for vital machinery like oil drilling rigs is sufficient to deter the Soviets from any rash moves on the debt front. During times like these, that threat is certainly credible. But, as we've already established, during "times like these" the Soviets have no interest in canceling COMECON debts, since they're receiving gifts as fast as they can unwrap them.

Perhaps the most chilling prospect is that the Soviets' debt card is likely to trump during a severe confrontation, when shooting has not yet started and probably can be avoided. During a severe crisis (similar, say, to the Cuban missile crisis), which side would be injured more by a default/trade cutoff showdown? The Soviets would lose access to further loans (gifts) from the West, and face eventual shortages in grain and technology. But these would be long-term problems. The West's problem would be immediate: its banking system could well collapse into chaos. Trying to absorb the gigantic default would set in motion, many believe, a panic equal in magnitude to the stock-market crash in 1929. The West would also have to absorb the collateral damage of disrupted farms and businesses that base their production on the funny-money Eastern trade. This combination would cause such frantic squabbling in the West—distracting the attention of Western leaders—that clearly it would be at least a short-run tactical triumph for the Soviets.

Most of the experts interviewed for this article believe that the Soviets would resort to default blackmail only after a radical deterioration of the political atmosphere. Considering the invasion of Afghanistan, the predicted defeat of SALT II, and the Soviets' perception of Carter's Olympic boycott as a hostile act, such a deterioration is not unimaginable.

Several days after the Afghanistan invasion, NATO ministers boldly declared they were considering retaliating by shutting off Soviet credits. The idea was quietly dropped the day after it was announced.

NATO's fumbling response to the invasion of Afghanistan has given the Soviets an opportunity to observe how potent their default weapon is—even when employed in a tacit, passive manner, for strictly defensive purposes. They must now be all the more impressed with that weapon's potential for an active, aggressive Soviet offensive designed to extract political concessions from a checkmated West. ■


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It's 11 o'clock. Do you know where your facilitators are?

# STAND BY FOR THE NON-EVENT OF THE YEAR

by Jonathan Alter

Surely you can understand the poor guy's feelings. After a hard day's work, he sits down to read the paper, dog at his feet, wife at his side. The first thing he sees is a feature article about three lesbian unwed mothers raising their mulatto children in a geodesic dome. "Cupcake," the guy says, "it isn't inflation or Iran that's ruining this country. It's the crisis of the family."

The crisis of the family may not strike you as the central issue of our times, but you'll start hearing that argument any day. This month, the White House Conference on Families will stage $3-million worth of crisis pronouncements in hearing-like assemblies around the country.

Holding the conference was a Carter campaign promise. Carter said there "was no more urgent priority" than to "adopt a family policy." This politically harmless contention helped him frame issues in appealing terms. (Why say, "This tax is regressive," when you can say, "This tax hurts the average family"?) Current reelection ads show the President helping Amy with her homework. Carter image strategists, informed sources say, decided to keep the family issue prominent when the chief renomination opponent turned out to be a man whose wife lives 400 miles away from him.

The likely level of debate was indicated early on, when the first conference director was named. She was Patsy Fleming, a divorced black mother. Then-HEW secretary Joe Califano insisted that a white Catholic man with an ideal family be named co-director to balance the shocking notions Fleming represented. Fleming quit. Luckily, there is still a white Catholic man with an intact family in America. His name is John Carr, and he was appointed to replace Fleming. Meanwhile the conference's political clout went to its chairman, former Arkansas Congressman Jim Guy

*Jonathan Alter is a Washington writer.*



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Tucker, who was an early Carter supporter and itching to stage a comeback after losing his state's Democratic senatorial nomination to David Pryor.

If the Fleming debate sounds superficial (no one accused her of being incapable, just black and divorced), it was Socratic inquiry compared to the next argument over how one defines a "family." During initial rounds of hearings held last year in various states, where 2,000 people "testified" and delegates to the final hearings were elected, various rightish "pro-family" groups with names like Moral Majority and Eagle Forum tried to take over the conference. After their favored points of contention—abortion and ERA—were ruled out of order, they concentrated on trying to impose a strict definition of the family on all conference discussions. Their definition limited family members to those related by blood, adoption, or marriage.

In an attempt to placate the millions of Americans who have made other arrangements, Tucker trotted in liberals who maintained that homosexuals, communal partners, and others with "minority lifestyles" could be families too. A number of "experts" who call themselves "professional family facilitators" told hearings that a single person, living alone, could constitute a "family." ("Have you hugged yourself today?")

Tucker's fighting to keep the definition quagmire off the final agenda. He'll probably lose. But he shouldn't feel bad. He'll soon discover what conference veterans already know, that endless debate over definitions has a most welcome side effect: it limits the time available to discuss anything specific, like whether new laws should be passed, or old ones repealed.

Conferences are allegedly called for the purpose of generating innovative ideas on legislation and policy (after all, the legislature is already assembled to handle the details), but if they never quite get around to that, the White House usually considers it a mark of success, not failure. Barry Jagoda, a former Carter media advisor and organizer of other conferences, explained: "What's the best thing for a consensus politician like Carter to do with any question? Refer it to committee for 'discussion.' "

Most important, debating the definition will prevent a confrontation with the conference's seminal flaw: if public policymakers can't even decide whether any particular form of cohabitation is desirable or undesirable, how can they possibly determine what things government action should encourage or discourage? At least economic policy is guided by the commonly shared notion that inflation is bad; the most dynamic consensus in "family policy" is that people should be happy.

## Top Floor for Rent

The vagueness of family policy is indicated in the sorts of "programs" proposed during the initial conference hearings. Several "facilitators" suggested that "family impact statements" be required of all legislative bills and regulations. Presumably, this would—in addition to enriching the facilitators with study grants—alert families to impacts they might otherwise overlook. A new military draft, for example, would free up a room for rent. Teams of consultants could fan out across America, quantifying the square footage impacted.

The conference press office points with pride to a slate of "key family issues," drafted by the South Dakota delegation, as the sort of vital business to be discussed. Among the "key issues" are "encouraging families to spend more quality time together." This would lead, no doubt, to the Weekly After-Dinner Monopoly Game Encouragement Act of 1980.

One of the few specific issues likely to be addressed is the "marriage tax," which forces married couples to pay more taxes than unmarried ones in identical situations. This inequity should be changed, of course, but not because of its impact on the family—rather, because it is unfair. Another distinct family issue to be discussed is care for the aged. Medicare provides subsidies to lock up your grandmother in an institution, but not to care for her at home. This policy is transparently foolish. It offers an incentive to shunt Granny off to loneliness and mistreatment, while penalizing those who have the decency and love to keep her home.

Conference officials hope for some kind of resolution condemning this policy, but if they get it, it's likely to be watered down. Why? No one will say this with the cameras rolling, but there is a large constituency of


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"Professional family facilitators" told hearings that a single person, living alone, could constitute a "family." Have you hugged yourself today?

people who *want* to dump Granny. Medicare's structure not only provides them with the means to do so, but a ready excuse. ("It's not the way we want it, dearie, but what else can we do?") Ending the subsidy for nursing homes, in many people's minds, would make the quality of family life *decline*.

It's no surprise that much of the conference agenda planning is based on a 1976 Califano memo that says,"The most severe threat to family life stems from unemployment and lack of adequate income." If by that Califano meant that being out of work or poor makes people living with other people miserable, he's right. Of course, it makes people living in caves miserable too. Here you see the amorphous nature of trying to frame government initiatives in "family" terms. Are we to take the next step and assume that economic prosperity, which helps every individual, is "good" for "families"? Facilitators at the initial hearings repeatedly proclaimed that the traditional family began breaking up in the 1960s. The early 1960s were one of the greatest periods of prosperity in our history.

## Facile Facilitators

Even members of the conference's own advisory board make no pretense of expecting any accomplishment. Eleanor Smeal, director of the National Organization for Women—one of the liberals who triumphed by getting substantive issues like abortion and ERA ruled out of order—says the final recommendations will be just "another study to gather dust."

About the only segment of the population sure to be served by the conference is the facilitators, who want more government money poured into their ambiguous occupations. Harvard sociologist Joseph Featherstone points out that ten years ago, when the baby-boomers were still in their teens, social service professionals focused on children's affairs. Now that the babies are having babies, universities and think-tanks increasingly see "the family" as their entree to federal grants. They've even gotten to *The Wall Street Journal*. Recently the *Journal* noted in an editorial that Carter had created an "Office for Families" in the new Department of Health and Human Resources. "Yet six months later," the *Journal* said sternly, "that office has no director, only one professional, and no funds for action."

The *Journal* didn't get bogged down in specifics about what "action" the Office for Families might engage in. Provide a meeting room for families visiting Washington (". . . at 4 o'clock we'll all meet back at our office")? Finance training films for individuals trying to become families? The *Journal*'s editorial simply helped boost the synthetic sense of crisis—a sense that paralyzes Washington by simultaneously exaggerating every issue's importance and creating the impression that it cannot be addressed without establishing yet another new government entity. That's the story of the White House Conference on Families this year. No doubt it will be the story next year, too, during the long-awaited White House Conference on Feelings. ■



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# ZBIG FOR LIFE

## The way the Supreme Court is going, that's what we could be stuck with.

## by Robert M. Kaus

Imagine it is January 20, 1981. Imagine that John Anderson has just taken the oath of office at the Capitol. In triumph, he proceeds to the White House. While Keke occupies herself with meeting the staff, Anderson visits the Oval Office for the first time. The room is empty of furniture except for the desk and telephone; the walls and shelves have been cleared of Jimmy Carter's memorabilia. It is, for Anderson, a moment to be savored—the symbolism is so obvious that he can hardly fail to appreciate it.

"A fresh start," he thinks. "At last, I can make this government work. . . ."

The intercom on the phone buzzes, startling him out of his reverie. He picks up the receiver. "Mr. President, I'm sorry to disturb you," a secretarial voice says, "but there's a process-server here to see you."

Anderson is dumbfounded. The first of his official visitors is. . . a *process-server*?

The man enters, hands Anderson a receipt to sign, presents him with a copy of a legal brief, and then exits silently. Anderson looks at the title page:

*Brzezinski* v. *Anderson*

. . . and then he begins to read. He can hardly believe his eyes. It appears that Zbigniew Brzezinski is suing to keep his job as National Security Adviser. Yes, there's no mistaking it, as Anderson reads on. Brzezinski is arguing—Anderson is flabbergasted—that he has a constitutional *right* to stay on in his job, that firing him would "penalize and inhibit" his "freedom of political affiliation." And to support his argument, he's citing a 1980 Supreme Court case called *Branti* v. *Finkel.*

Anderson bursts through the door and races down the long halls, looking desperately for Keke. *Someone*'s got to help him figure this thing out. It looks to him. . . well, it looks to him as though, if Brzezinski is right, Anderson may not be able to appoint *anybody*. . . to *anything*.

You find this far-fetched, of course. You shouldn't. Oh, it's unlikely—but not beyond the realm of possibility, if we take seriously what the Supreme Court said three months ago in striking down the "spoils system" in Rockland County, New York.

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## The Society of Jobbists

Let's start with the facts:

Aaron Finkel and Alan Tabakman were assistant public defenders in Rockland County. They had been appointed by the County Public Defender, a Republican official chosen by a Republican county legislature—and in keeping with the pa-



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tronage tradition in the county, Finkel and Tabakman were Republicans too. When the voters threw the Republicans out of power in 1977, the new Democratic majority fired the Republican Public Defender and appointed a Democrat, Peter Branti, who in turn refused to reappoint Finkel and Tabakman, in order to fill their slots with lawyers from his own party.

Enough facts. If you read your newspaper regularly, you probably know that Finkel and Tabakman made a federal case out of them, and that three years later the U.S. Supreme Court determined that the replacement of the two attorneys had been nothing less than unconstitutional, a violation of their rights under the.... any guesses?... First Amendment. The Court's reasoning was simple: Finkel and Tabakman had been dismissed solely because they were Republicans. They had thus lost a "valuable government benefit" (e.g., their $16,700/year part-time jobs) because of their "constitutionally protected interests" (e.g., their right to be Republican). Their "freedom of political affiliation" had thus been "penalized and inhibited." Needless to say, "such interference with constitutional rights is impermissible." Next case.

The Supreme Court had displayed this logic before, most notably in 1976, when Justice William Brennan had pronounced similar judgment on Chicago's patronage machine. But the Court had been badly divided on that occasion, and had specifically permitted politicians to continue the practice of firing "confidential or policy-making" employees on the basis of party loyalty. Now a strong majority of the Court was tightening the noose a bit more, protecting public defenders from political firings even though they might "make policy." The majority this time included "conservatives" like Warren Burger and Byron White as well as "liberals" like Brennan and Thurgood Marshall.

If you read this magazine regularly, you know that it has been arguing for years that *more* politics, not less, offers the best hope of making our governmental bureaucracies more responsive to the people they govern—and that in the concept of "partisan politics" lies the key to the only effective way that a majority can organize itself to govern. But if the *Finkel* case is any indication, the Supreme Court seems to have embraced another vision of government, which measures progress in terms of words like "professional" and "merit" and "good cause," while words like "politics," "partisan," and "influence" are epithets that signify decay.

It's always tempting, in a situation like this, to let fly with a howl of righteous fury against your enemy, but the better strategy is to try to understand him first. From all appearances, none of the members of the majority in the most recent anti-patronage case, with the possible exception of the Chief Justice, is a certifiable fool. If we can trace the origins of their position, perhaps we'll be able to do better at pointing out to them the error of their ways.

When the Justices argue that the "spoils system" violates the individual freedom of government employees, it's a special sort of freedom that they're talking about. The best way to understand it, I think, is as part of a larger assumption about the relationship between people and their work. Call it *Jobbism*. The term is borrowed from Oliver Wendell Holmes, who fancied himself a member of "an imaginary society of the jobbists, who were free to be egotists or altruists on the usual Saturday half-holiday provided they were neither while on their jobs. Their job is their contribution to the general welfare, and when a man is on that, he will do it better the less he thinks either of himself or of his neighbors, and the more he puts all his energy into the problem he has to solve."

Central to the ideal of Jobbism, then, is the notion that a job is a role—and that society can be expected to work best when everyone simply accepts his role, performing it as well as possible and not questioning it. The quintessential Jobbists, of course, are lawyers—a fact that may account for no small part of the appeal of the idea to the Supreme Court. Defense attorneys don't ask if the accused is innocent, they simply defend him. Young corporate attorneys may have revolutionary posters on the walls at home, but they stay up nights writing briefs for Exxon. That's their job. Their personal views, as Holmes dictated, are left for the weekend. Lawyers aren't the only Jobbists around, of course, they're just the easiest variety of the bird to spot on the wing.

The virtue of Jobbism seems clear: it relieves people of the need to be constantly asking whether what they do has meaning, serves a purpose. Applied to the govern-



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ment, the Jobbist ideal yields up the model of the professional civil service, competently carrying out the directives of its leaders. The members of the bureaucracy may be Democrats, Republicans, or card-carrying cadres of the Flat Earth Society, but they are Jobbists first, and they will serve Democratic and Republican masters with equal fidelity, much as a good law firm would serve its clients. From another perspective, it might seem bizarre that a mail clerk who believes that abortion is murder would nevertheless diligently deliver Medicaid checks to mothers wishing to terminate their pregnancies. From the Jobbist perspective, it is the only means of avoiding the chaos that would result if each clerk were to decide which checks to process and which to let fall on the floor.

## Save Me The Weekend

Political freedom, in the Jobbist system, exists only behind the wall that separates private life from public role, the weekend from the week. Just as the lawyer may not denounce his client, the civil servant may not, in theory, disobey "policy." What is left to them both is the freedom to think what they like—as long, of course, as it doesn't interfere with their jobs. The ultimate sin in a Jobbist world is to penalize a man for his political beliefs even though he is doing his work, because that deprives him of the weekend along with the week.

If any one period burned this version of liberty into our national consciousness, and our law, it was the McCarthy era. During the witch-hunts we saw what could happen when politicians attempted to impose thought control, and we concluded it was none of the government's goddam business what its employees believed, as long as they were doing their jobs. This sentiment quickly became part of our Constitution, as the courts stepped in to prevent government workers from being fired because of their beliefs. Not surprisingly, most of the precedents cited by the Supreme Court in this year's patronage decision date from the 1950s. If someone cannot be sacked because he is a member of the National Lawyers Guild, the argument goes, surely Finkel and Tabakman cannot be fired because they're Republicans.

But how easy is it to seal off our day-to-day labors from our deepest personal feelings? True, lawyers are remarkably successful at managing this moral schizophrenia—but they are encouraged in the attempt by the hard fact that clients rarely show pangs of conscience themselves about dumping a law firm that has lost a case through sloppy work. This is where the parallel between lawyers and the civil service comes apart. In the civil service, employees are effectively insulated from the sort of daily judgment of performance to which even the most well-established lawyers are regularly subjected.

Combine Jobbism with tenure, then, and strange things begin to happen. For one, the separation of work from belief becomes unenforceable. While he may not refuse an assignment he thinks is wrong, the civil servant may resort to one of the many techniques of subtle resistance available to an experienced bureaucrat. This foot-dragging ability is often advanced as a virtue of the civil service, an argument traditionally documented with a reference to the presidency of Richard Nixon and his failed attempts to subvert the IRS and FBI. True, when a Nixon is in charge, the presence of tenured officials who can dig in their heels can be a blessing. But it also means that we can forget about a government that moves with clockwork efficiency to implement policies of which we *do* approve. More important, the tenured official is just as likely to temper his performance with self-interest as with idealism. In particular, his tenacity in following orders is apt to vary in inverse proportion to the extent to which those orders threaten his agency's budget, and inferentially, his job.

For all of its well-known abuses, the spoils system provides an antidote to these tendencies. Where the Jobbist ethic seeks to overcome both idealism and self-interest, the patronage system would harness them. It is the antithesis of Jobbism in that, by making ideological loyalty a test of employment, it seeks to fuse politics and duty, and so ensure that the people who run the government are committed to what it stands for. And by tying their fate to the fate of their party, the system lets these officials know that if they don't produce, the voters may turn them out of their jobs in the next election.


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But when the Supreme Court looks at patronage, it sees only the dark side—the threat to government workers' individual beliefs, and not the appeal to them. At the same time, when it looks at the civil service, it sees only the idealized image of the buzzing law firm writ large, diligently serving its public clients. The Justices know which image they prefer.

The key comes in Brennan's opinion in the 1976 case, when he pauses to consider the possibility that patronage systems may provide some incentives that "merit systems" do not. Might not government workers who disagreed with the policies they were enforcing be inclined to resist them, while those who believed in them would be motivated to make them work? "We are not persuaded," Brennan writes. "The argument does not succeed, because it is doubtful that the mere difference of political persuasion motivates poor performance." The reader scans the page for something, anything to support this remarkable assertion, but in vain. To Brennan, no support is necessary; the statement is self-evident. It is, in fact, simply the essential principle of Jobbism: that people in our society are not motivated by their beliefs, that Republican employees will happily implement Democratic policies.

In the end, this is a short ration of freedom. The whole point of the patronage rulings, the Court tells us, is to protect the individual employee's freedom of political belief, beliefs that are "inhibited" when party bosses demand loyalty. But in the same breath the Justices assure us that these deepest considerations of conscience are surely not important enough to affect anyone's performance on the job. Our beliefs are to be protected, it seems, as long as we aren't likely to do anything about them.

The principle is illustrated by the fact that, while the Court has quickly stepped in to declare unconstitutional the firing of government workers on the basis of their political *thoughts*, it has upheld, in ringing language, the direct, explicit ban on their political *activity* contained in the Hatch Act. This the Court has called "the subordination of some First Amendment activity to protect other such activity." In the Jobbist scheme that the Court is enforcing, being a Democrat, Republican, Libertarian, or socialist becomes a sort of private creed, to be practiced quietly at home, or at best a sort of ceremonial fellowship, cemented perhaps by secret handshakes, on the order of the Kiwanis or Elks.

## Touching the Bases

Instead of idealism, or the threat of voter retribution, the Supreme Court's preferred means of motivating the government worker appears to be the "good cause" dismissal. Justice Brennan concludes his 1976 assessment of the patronage system by asserting that, even without patronage, "means for insuring government effectiveness and employee efficiency are available to the State. Specifically, employees may always be discharged for good cause, such as insubordination or poor job performance, when those bases in fact exist."

Run the tape again: "... when those bases in fact exist." What this innocuous phrase means, of course, is that before any employee can be discharged, there will be a hearing at which he will have the opportunity to argue that those bases in fact *don't* exist, while the government must prove that they do. Whenever you see the magic words "good cause" in connection with the attempted firing of federal employees, picture in your mind a hearing, fully equipped with lawyers, cross-examination, subpoenas, witnesses, motions, delays—because the Supreme Court has ruled that the "due process" clause of the Constitution requires no less.

If the *principle* of a hearing sounds like a matter of simple justice—protecting innocent workers against the arbitrary and capricious whims of their employers—the reality is disturbing. What was once the decision of an official, accountable to the voters and acting only after weighing a variety of considerations, becomes instead the decision of an unelected judge or hearing officer, acting after two lawyers, each representing a single narrow interest, have slugged it out in a trial.

To appreciate the effect of this transformation, consider the decision-making process implicit in the government of a city where a substantial number of jobs were distributed under the old "spoils" system. The initial decision-makers would not be the politicians, but the voters. They would decide whether to retain the party in power. The political leaders of the party out of power would, of course, seek to



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In the Jobbist scheme of things, being a Democrat, Republican, Libertarian or socialist becomes a private creed, to be practiced quietly at home, or a ceremonial fellowship on the order of the Kiwanis or Elks. . .

discredit the incumbents, pointing to tax increases, the poor quality of the schools, and the chuckholes in the city's streets. If you were a challenger, you would promise to do a better job, and appeal to the voters to throw the bums out.

Suppose they do. You win—now you are the mayor, faced with the exciting prospect of actually being able to implement your programs. Because of your patronage power, you can hire the people you think will most effectively carry out your ideas—from the Highway Department director and his engineers, who help you decide which streets to re-pave and which to let go for now, on down to the workers who actually fill the potholes and who, if they aren't on your side, can make repairs that will wash away in the next light shower.

Unless you are a real fool, you will not fire all the employees of the previous administration. As soon as you are elected, you will begin working hard at getting to know personally as many city employees as you possibly can, checking out the others through the best sources you have. You will want to keep some of these people—not only because they can provide you with access to past experience, and because they provide the city with continuity, but because you really hope to capitalize on their skills. You are looking not only for the competent engineer, but also for the street crew leader whose touch with potholes is legendary. You are smart enough to know there are times when you want a good Jobbist in your corner, and you enjoy sifting through the government looking for them, shaking up the departments, cleaning out the warm bodies, and, by doing so, implicitly recognizing and rewarding the survivors.

Since real fools do manage to get elected from time to time, the old all-patronage system was bound to need reform. Government needed some civil servants, to ensure continuity and to help protect the processes of government against the ravages of an inept or crooked administration. But the civil service has had a malignant momentum, to the point where we have almost nothing else in the federal government (where there are fewer than 3,000 patronage jobs in a bureaucracy of 2 million souls) and, increasingly, at the state and municipal levels as well. It is a trend that can only be accelerated by the latest Supreme Court decision.

Suppose the voters have just elected you mayor in a city operating under the pure "merit" system favored by the Court. Assume you've run the same campaign and the voters have given you the same mandate. This time, you take a look at the Highway Department and stop cold. Of the thousands of employees, you are allowed to replace only two or three top "policy makers." The rest are "merit" jobholders, and if you are to fulfill your promise to straighten out the mess in the department, you must somehow single out the rotten apples, charge them with insubordination or poor performance, and amass a file that will have a chance of surviving a hearing. If you're an ordinary mortal, it's at this point that you start leaving the office early, attending ceremonial luncheons and mid-afternoon ribbon-cutting festivities, and deciding to go to that upcoming week-long conference of mayors in Honolulu.


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But let's suppose you decide to give it a try and forge ahead with a few "good cause" dismissals. The decisions you would previously have made on your own, subject to the wrath of the voters, are now made in a courtroom. In this room are two lawyers. One represents you. He accuses the employee of poor job performance. The other lawyer, representing the employee, accuses you of "political motivation." When the lawyers get through, the actual decision is made by a third party—a hearing officer who is, himself, a "merit" appointee. He has no urgent personal concern in making your administration succeed, and need not account to the voters for his actions. Even if the hearing officer decides in your favor, the employee can appeal to the courts, where anywhere from one to three layers of judges—all unaccountable to the voters—will review the hearing officer's findings. If, after the entire process is over, you win, you have succeeded in firing a single employee. On the other hand, if you lose, you are faced with the bracing prospect of spending the rest of your term trying to work with someone you have denounced in open court as an incompetent.

From the point of view of the individual worker, of course, this system looks pretty good. It all but eliminates any chance that he will be fired arbitrarily. And even from the point of view of the public at large, the barrier of hearings and appeals, protecting a core of "merit" workers, may present several advantages. These employees may be more likely to tell the politicians when they are wrong, or even "blow the whistle" on them. All of which adds up to some good reasons why the voters might want to create a merit system covering some of the city's jobs.

But the Supreme Court has taken that decision away from the voters too. What the patronage cases say is that the *Court* is to decide which jobs are to be insulated from politics, and which other jobs fall in the blurry category where "an employee's. . . First Amendment rights may be required to yield to the State's vital interest in maintaining government effectiveness and efficiency." If the politicans can't show an "overriding" interest in a particular job, then politics is out. Brennan concluded this much in 1976, when he said that "the greater effectiveness of patronage over [merit systems], if any, is at best marginal." He did not simply say that a "merit" system is fairer to the employee. He decided that it is virtually costless.

One reaction to these assertions is to point out that the Merit Systems Protection Board (MSPB), which administers the federal version of the merit system, holds roughly 8,500 disciplinary hearings a year. What do the Justices think pays for these procedures, a grant from Xerox Corporation? But, of course, the real expense of the system is not reflected in these out-of-pocket costs. It is reflected in the fact that even the most conscientious federal officials know that, if everything goes on schedule, it still takes 120 days for an "initial" decision after an employee challenges his discharge at a hearing—and an additional six months if he appeals that decision within the MSPB. That's assuming the employee doesn't seek further review of his case in federal court, where delays are measured in years instead of months. Faced with the prospect of spending most of his term in office in litigation over a single discharge, the conscientious official doesn't even try. No wonder less than one half of one percent of the federal government's "merit" employees are discharged each year. "Merit systems" are simply what gave the federal government the reputation for efficiency it enjoys today.

## First and Tenure

After the Supreme Court's latest pronouncement, what jobs are left for the politicians to fill? The answer is, nobody knows. One of the "passive virtues" of our court system is its ability to leave pressing national issues hopelessly unresolved, and this virtue is abundantly displayed in the

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Court's most recent patronage ruling. The key phrase in the decision—what lawyers like to call the "standard" that is to guide the lower courts—reads as follows: "In sum... the question is whether the hiring authority can demonstrate that party affiliation is an appropriate requirement for the effective performance of the public office involved." Nails it down, wouldn't you say?

But the Court did drop a few clues for future generations to sift through. The "coach of a state university's football team" is constitutionally protected from politics, for example, because "no one could seriously claim that Republicans make better coaches than Democrats, or vice versa." On the other hand, the Court allows that "it is equally clear that the governor of a state may appropriately believe that the official duties of the various assistants who help him write speeches, explain his views to the press, or communicate with the legislature cannot be performed effectively unless those persons share his political beliefs and party commitments."

This is not a very generous admission. And confirmation that the Justices don't regard partisan politics as "appropriate" to much in government comes quickly, when the Court gets down to the case at hand—namely, Finkel and Tabakman. "It is manifest," the Court asserts, in its best *ex cathedra* voice, "that the continued employment of an assistant public defender cannot properly be conditioned upon his allegiance to the political party in control of the county government," because "whatever policymaking occurs in the public defender's office must relate to the needs of individual clients and not to any partisan political interest."

Let's take this example, since it's the one we've been given. I can think of any number of "policies" a public defender might want to make, with the cooperation of his assistants, that would be an entirely legitimate concern to the public at large, and hence be appropriate subjects of "partisan political interest." The public defender's office might be awash in waste, or corruption. Individual attorneys might be accused of failing to challenge invasions of privacy by the police.

But let's look at just one recurring controversy: plea bargaining. Plea bargaining is, simply, a way criminal attorneys avoid having to go to trial. Typically, the prosecutor and defense attorney will negotiate over the prospects for conviction, and then the prosecutor will offer to drop some


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of the charges if the defendant will plead guilty to other, less serious charges. From one perspective, the plea bargaining really is a bargain for everyone: the defendant gets punished for a less serious crime than he probably committed; the court system gets to process cases more swiftly.

From another perspective, however, plea bargaining raises some questions. If you know someone who is a criminal attorney, you know that the one thing that keeps him up on nights and weekends is the prospect of going to trial. A trial requires careful preparation, draining courtroom performances, and usually involves several messy questions of criminal procedure. It often means individual responsibility for whether a man will go free or go to prison. Trials, in short, are what give criminal lawyers ulcers. And they mean a quantum jump in work for the judge as well—he, after all, must sit through them and rule on all the questions of law the attorneys raise.

But if the judge, prosecutor, and public defender can get together on a plea bargain, and if the public defender can then sell it to his client, they can all avoid this work and enjoy the weekend. From this angle, plea bargains are a three-cornered deal in which, alternatively, the interests of the defendant, the state, or justice are apt to be sacrificed. If I were a public defender, I'd want to keep a close watch on the practice, to make sure that my assistants were earning their salaries. As a member of the public that was paying those salaries, I might want to do the same.

Indeed, plea bargaining is one of the most controversial issues of criminal law. And it is precisely the sort of practice that should be subject to a full public debate, and constant public oversight. Yet the Supreme Court seems to be saying that it would somehow not be "appropriate" for the Democrats or Republicans in Rockland County, New York, to take a stand on the public defenders' handling of plea bargaining—or any other issue relating to the administration of the office. In the name of the "First Amendment" interests of the officials themselves, the Court is willing to tolerate the removal of their entire conduct in office from the "uninhibited, robust, and wide-open" debate that is the whole point of the First Amendment.

In fact, practically any government employee you can name takes actions that are of legitimate partisan concern, for the simple reason that in a democracy *every* government action is potentially an issue for public—and hence partisan—debate. It is this sense of democracy that is left out of both the Jobbist definition of freedom, and the Court's musings on the spoils system and the "appropriate" role of politics. Democracy surely means the freedom to think what you like, but it also means the freedom to *act* on those thoughts, to try to organize your fellow citizens into a political majority. And for that majority, democracy means the right to effectively control the government that it chooses. Both these ideas imply limits on the ability of government officials to remain unaffected when their own beliefs are rejected by the voters.

## A Little Lawsuit

It is an indication of how far the Court has gone in the opposite direction that, if you take the language of the latest decision seriously, it's an open legal question whether a newly elected governor, or president, may appoint his own cabinet. Why should they lose their jobs because of their political beliefs and associations? They are not football coaches, to be sure—but neither are they lobbyists, speechwriters, or press secretaries, which are about the only jobs for which the Court has conceded that politics is "a legitimate factor to be considered." Everything else is to be determined on a case-by-case basis, with the burden of proof falling on the politicians.

Which brings us back to Zbigniew Brzezinski. If I were Zbig, and I wanted to keep my job after Carter lost the election, I wouldn't change my party registration, or cuddle up to the winner. I'd sue. . . . But wait a minute. Why stop there? Why not carry the Court's reasoning a step further? I mean, can the voters just arbitrarily *fire* a president, who has given them his best efforts, solely because of "mere differences of political persuasion"? What about *his* First Amendment rights? What about "good cause"? If Lloyd Cutler begins drawing up the papers right away, the administration could be ready for Anderson or even Reagan the day they walked in the White House door. No need to pack up for Plains. Just a little lawsuit, the kind the Supreme Court loves to hear. . . *Carter v. Reagan.* ■



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# Tidbits & Outrages

### There is No God but Allah and Sikorsky is His Prophet

This month's Sherlock Holmes Award goes to Rep. Samuel Stratton. Two weeks after the Iran raid, Stratton was entering a hearing into the mission's failure. He told reporters: "To me, the helicopters may be the key."

### Now a Brewers' Association Must Found the Six-PAC

You've heard, of course, about the proliferation of fund-raising political action committees, or PACs. The Potato Chip and Snack Food Association recently formed one. It's called the Snack PAC.

### (h) wrote to Ann Landers

Once the bureaucracy is alerted to a problem, nothing can stand in its way. Consider how the Equal Employment Opportunity Commission responded to the problem of sexual harrassment at work: it published the following "Interim Amendment to Guidelines on Discrimination Because of Sex":

"Consistent with the policy of voluntary compliance under Title VII Para. 604.11(e) recognizes that the best way to achieve an environment free of sexual harrassment is to prevent the occurence of sexual harrassment by utilizing appropriate methods to alert employees of this problem. . . ."

Maryland's Department of Personnel attacked the problem by passing around a questionnaire. Among its key questions:

5. How did you handle it? (Check all which apply)
   (a) Discussed the problem with the person doing the harrassing
   (b) discussed it with the person's supervisor
   (c) told a co-worker
   (d) told a close friend or family
   (e) discussed with Fair Practices officers, Equal Opportunity Officer or State Coordinator for Equal Opportunity
   (f) discussed with private or public agency
      1) Equal Opportunity Employment Commission
      2) Maryland Commission on Human Relations
      3) Maryland Commission for Women
      4) Other_____
   (g) did nothing
   (h) other_____

### Guess the Author

Which person wrote the following poem: Rod McKuen? Edna St. Vincent Millay? Eugene McCarthy? Terry Bradshaw? W. Clement Stone? Karl Marx? Zeppo Marx? Eddie Rickenbacker? Jill St. John? Colonel House? Mario Andretti? Kahlil Gibran?

If your beaming eye breaks
Transported and trembling
Like the undulating tone of strings
Which, bound to the lyre,
Musingly have slumbered,
Upwards through the veil,
Of primeval night,
The flash from above
Eternal stars
Loving inwards

You sink tremblingly
Your breast beats,
You view unending
Eternal worlds,
Above you, under you,
Incomprehensible, unending,
Hovering in dancelike rows
Restless eternity,
And an atom
You sink into the World-All

Your Awakening
Is endless rising,
Your rising,
Eternal fall.

If your soul's
Rippling flame
Strikes into its own depths,
Back into its breast,
Then comes forth unbounded,
Lifted by spirits,
Carried by a sweet,
Swelling magical tone,
The soul's secret
Upward out of the soul toward
Daemonic abyss.

Your sinking under
Is endless rising
Your endless rising
Is with quivering lips
Reddened by ether,
Flaming, eternal,
Lovekiss of divinity.

(If you're stumped, you'll find the answer on page 64.)



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# How To Bribe Judges, Fix Prices, & Delay the Inevitable

## The American Bar meets the challenges of our times.

by Philip Stern

If it is true that lawyers predominantly serve the rich, they are not unique among professionals. What sets them apart is that they exclusively control access to an entire branch of government: the judicial branch. For, as a practical matter, when you have a legal problem, you can't get through the courtroom door without a lawyer. Technically, you can as a layman represent yourself. But in most contests against an experienced lawyer, only the foolhardy would try.

So when the American Bar Association makes the remarkable admission that it "has long been aware that the middle 70 percent of the population is not being reached or served adequately by the [legal] profession," it is acknowledging that nearly three quarters of the American people lack full access to the system of justice.

The profession's failure to serve "the middle 70 percent" is not for lack of lawyers. On the contrary, this country alone has two thirds of all the lawyers on earth. Three times as many, per capita, as England. Twenty-one times as many as Japan. And law schools continue to pour out new attorneys at an unprecedented rate.

What is more significant than the fact that 90 percent of lawyers serve ten percent of the people is that *the legal profession has done its best to keep it that way.* The Organized Bar has deliberately kept the price of legal help up and has kept competition down. For decades, the bar deemed it *unethical* for a lawyer to charge less than the bar prescribed. Finally, the Supreme Court said that was illegal. Yet even today there is price fixing among lawyers—in the buying and selling of homes, for example.

The Bar has fought ways of doing away with lawyers as expensive and needless middlemen—has fought, for example, the self-help probating of wills. In America, people pay lawyers nearly $1 billion a year for probate—three times what they pay in funeral expenses. In England, people handle the matter themselves, without lawyers, more cheaply and quickly than in America.

*Philip Stern is the author of* Lawyers on Trial, *to be published this month by Times Books, from which this article is adapted.* *© 1980 by Philip Stern. All rights reserved.*



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How do lawyers get away with it? The answer is simple: they have a monopoly—a state-approved monopoly, like a public utility. Utilities, however, are subject to public control, by a public utilities commission. Not so the legal profession, which in essence is answerable to no one. It writes its own rules and enforces (or fails to enforce) them as it sees fit. If you have a complaint against your lawyer, you have only one place to turn: your local bar association, where it will be passed upon by your attorney's brethren in the profession. Hardly the most objective of judges.

The lawyering power of major American corporations dwarfs that of even the United States government. For example, in 1977 corporations spent $24 *billion* on legal services. By contrast, the budget of the U.S. Department of Justice, which is in charge of enforcing the anti-trust laws and other laws affecting business, totals one-tenth as much.

In a 1978 legal battle over the question of whether the major oil companies should be allowed to keep alleged overcharges amounting to $1.3 billion or should be required to refund the overcharges to consumers, the court documents listed *30* separate attorneys for the various oil companies (and one participant says at one time they numbered more than 100) and just *three* lawyers (one for Consumers Union and two representing the U.S. government) arguing for the consumer refund.

One oil company attorney startled his adversary by stating his firm was charging its client $350 an hour (nearly twice its normal charge) in this case. Asked how such an extraordinary fee could be justified, the attorney smiled and said, "Do you know what the *interest* on $1.3 billion is every *day*?"

The answer (assuming, conservatively, that the oil company can earn about ten percent on its money): more than $350,000.

•

I decided, early in 1979, to test the waters, and find out what might confront an uninformed newcomer to the legal arena when he sought help with some commonly experienced problems: forming a corporation to start a small business, probating a will, or buying a home.

Forming a corporation for a new business venture is not, of course, as commonly sought after as a divorce or a home purchase, but I had a particular reason for wanting to know how much lawyers would charge, in 1979, for that service. An attorney friend had told me it was common practice for lawyers to farm out the work to a specialty company, manned almost entirely by nonlawyers. The company would draw up and file all the necessary documents (even including writing the minutes of the new corporation's board of directors); the lawyer would pay the company $160—and then turn around and charge the client several hundred dollars, without doing a lick of work himself. Could that really be true in 1979?

It was. All but one of the lawyers I talked to quoted between $300 and $450 for a job they could get done for $160. That piqued my curiosity. If specialists could make a profit selling to lawyers for $160, why wouldn't they be delighted to sell directly to me and other members of the public for, say, $200? They'd make more money and I'd save money—classical free enterprise. I called the U.S. Corporation Company, a leader in the field. Would they form a corporation for me? No, they dealt only through lawyers. Why? They didn't want the local bar association initiating charges against them of unauthorized practice of law (in many states a crime punishable with a prison sentence).

Quite an arrangement: not only do lawyers have a monopoly on the rendering of legal services; the unauthorized-practice lever also gives them, in effect, *the power to define the boundaries of their own private turf*. That power, it seemed, was intact at the end of the 1970s—the decade that had given the appearance of bringing such changes to the legal profession.

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Fiorello LaGuardia, the colorful one-time mayor of New York City, once termed the probate court "the most expensive undertaking establishment in the world." He was on target. The last time the Internal Revenue Service provided solid figures, Americans paid two-and-a-half to three times as much to lawyers for probating wills as they paid to the funeral industry for burying the dead.

The lawyers' bill came to more than three quarters of a *billion* dollars—and, projecting that 1972 figure forward in time,


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the figure by now must be well over the billion-dollar mark. More surprising, these probate expenses are as much as 100 times what they are in England, according to probate expert William F. Fratcher. And probate here typically takes 17 times longer. The explanation: British procedures are vastly simpler, and do-it-yourself probate, without a lawyer, is the rule.

Here and there in the United States, one catches hints of the savings that can be realized when probate is wrested from the grip of the lawyer. In Maryland, even without a specially simplified probate law, Mrs. Barbara Thompson of Bethesda probated her husband's $140,000 estate with a couple of hours coaching from lawyer-legislator (and ardent probate reformer) David L. Scull. Ordinarily the legal fee for such an estate would have been about $7,000. Mrs. Thompson paid Scull $150.

The spirit of largesse in the dispensing of generous probate fees finds vivid illustration in the experience of one Manhattan psychiatrist who, after testifying before a "sheriff's jury" (then part of the probate court) as to the mental competence of a very wealthy but senile gentleman, submitted a bill for three hours of his time, at his regular hourly rate. He promptly received a call from the old gentleman's attorney:

"This is an inadequate bill."

"A *what*?"

"An inadequate bill. You are supposed to be a distinguished expert. With this bill you won't be taken seriously."

Shortly thereafter the psychiatrist received a check for three times the amount he had asked for.

Probate fees are further inflated by the use of the "percentage" method of calculating fees, in which the lawyer's charges vary, not with the work he performs, but with the size of the estate. So the fee for a $100,000 estate is automatically twice that for a $50,000 estate, even if the lawyer's task is identical. The same method is often used in billing for the legal work involved in a home purchase—the fee rises with the purchase price, not the work.

Attorney Henry Morrow, one of those using a percentage rule to fix his fee for real-estate title searches, told a state hearing he saw nothing inappropriate in basing his fee on the purchase price rather than the work he did. He described circumstances in which his task might be virtually nil (if, for example, he were to certify title to an entire housing development, in which case guaranteeing title to each lot on that tract would require no additional research). Would he then give the individual home buyers a price break on his fee? Not on your life, Morrow responded. "I see no reason why the second, third, or fourth [purchasers] should get the benefit of my services free when that information is exclusively in my possession."

•

No one can engage in the practice of law without a license—the license, in this case, consisting of admission to the bar.

That's not unique: many other trades and professions require licenses. Electricians, for example. Or architects. But their licenses are issued by the state, not by a trade association.

Lawyers are different. The power to issue or withhold *their* licenses—and, more importantly, the power to write the rules lawyers must follow—is vested, for all practical purposes, not in publicly elected or appointed city or state officials, but in the lawyers' *private* trade organizations: the bar associations, national, state, and local.

But the unique advantages of the legal profession don't end there. Even though the rule-writing power is privately held, the resulting rules typically become embodied in and have the force of state law, which gives lawyers the best of both worlds. They write their own rules—and then get the state to enforce them. For example, when the Virginia Bar Association instigated a legal action to prevent the Surety Title Company from selling title insurance directly to Virginia homeowners, and to require the company to sell through lawyers (at an added cost of nearly $500 on a $60,000 house), the bar association did not have to pay one cent to pursue the case. Instead, that burden was assumed by the state attorney general. The ironic result: not only were Virginians obliged to pay needlessly high title-insurance premiums; they also had to foot the bill for being forced to do so.

Sometimes, lawyers even *boast* of their price-fixing practices. Here is the ex-president of the Idaho Bar Association, addressing his brethren at an open meeting of the American Bar Association in the mid-sixties: "We have eight lawyers in the entire county. *We have an understanding*



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> The American Bar Association even advises its members on how to package a fee schedule: "A black leather cover with gold lettering is more desirable than a plain, though neat, paper cover."

*among ourselves* that these obvious [price] shoppers get nowhere. . . *It works very well for us*. I would suggest that if your local bar gets along well, you get together and discuss it openly and frankly. . . " [Emphasis added].

One New Jersey bar association issued a rule saying that "competitive bidding" by lawyers wishing to do work for the school board was "disapproved."

The American Bar Association's *Lawyers' Practice Manual* adroitly suggested that client dissatisfaction could be avoided and the fee schedules made palatable with proper packaging. The manual recommended that the schedule be "presented in an attractive folder, preferably evidencing a degree of dignity and substance." A "black leather cover with gold lettering" was "more desirable" than a "plain, though neat, paper cover."

•

Perhaps more important than the legal profession's capacity to curb competition within its own ranks is its power to stifle outside competition. If lawyers decree that filling in the blanks on a standard, preprinted home purchase contract constitutes "the practice of law," then a real estate broker who performs that normally routine function is guilty of "the unauthorized practice of law" (UPL)—and the Bar enforces its monopoly by causing that broker to be charged with what, in many states, is a criminal offense.

Pause for a moment and examine the phrase, "*unauthorized* practice of law." It fairly vibrates with connotations of illicitness, of a defiance of society's rules. Then ask, unauthorized *by whom*? By the Constitution? By an act of Congress or of some other popularly elected legislature? By *any* public official? No, none of the above. UPL is simply that which the American Bar Association or, more often, a state or local bar group asserts to be "the practice of law," and therefore "unauthorized" if performed by a non-lawyer.

Observe, too, that the offense lies in the unauthorized, rather than in the incompetent or inadequate, practice of law. UPL actions can be (and have been) brought against work—planning or probating a will, for example—performed by full-fledged lawyers—say, a bank's salaried attorney for one of the bank's customers. To a nonlawyer, this is most puzzling: it is quite acceptable for, say, Lawyer X, as a member of a law firm, to write or probate a will, but let X move to the employ of the bank and undertake the identical tasks and he suddenly becomes guilty of unauthorized practice. Why? Isn't he as qualified as he was before?

A typical example is the UPL action brought in 1978 by the Florida Bar Association against Rosemary Furman, a former legal secretary, who was charging just fifty dollars—about one-tenth the going rate among Florida lawyers—to help divorce-seeking Floridians fill out the necessary forms and conduct themselves appropriately at the abbreviated courthouse proceedings. At the time the UPL action was brought, Mrs. Furman had helped hundreds of customers without receiving a single complaint. Indeed, as the Florida Supreme Court noted in its opinion in the case, the Bar itself did not even "contend. . . that [Mrs. Furman's] cus-


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tomers suffered any harm as a result of the services rendered. . . ." But that did not prevent the Florida Bar from bringing criminal charges against her. (The decision of the Florida Supreme Court holding Mrs. Furman in contempt of court and ordering her to cease her divorce service has been appealed to the U.S. Supreme Court.)

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That the legal profession is a state-approved monopoly—with the state both adopting and enforcing its rules—is clearly advantageous for lawyers. But what does the public get in return?

Not much, especially compared with other state-sanctioned monopolies, such as public utilities. They, in exchange for their monopoly status, are obliged to serve the public convenience and necessity, including providing nondiscriminatory service to all comers. No such obligation is laid upon lawyers, who may (and ordinarily do) freely turn aside clients they don't want, leaving (by their own admission) a large portion of the public lawyerless or inadequately served.

No one argues that lawyers, being familiar with the peculiarities of their own profession, should be entirely excluded from its regulation. But should they be the *sole* regulators? Is it right, for example, that any complaint you may have against your attorney will be weighed solely by his fellow lawyers?

For example, after *The Washington Post*'s 1972 disclosures that lawyers in the Washington area were paying kickbacks and other hidden fees to developers, lenders, real estate brokers, and builders in widespread violations of the legal profession's Canons of Ethics, none of the principal enforcers of the Canons—the bar associations in the Washington area—took any action.

In this case, there was a second disciplinary avenue. The attorney general of Virginia was asked whether certain of these kickback practices violated state law. He ruled that they did.

And yet no one was prosecuted.

Why not? Virginia's assistant attorney general, G.J. Markow, furnished an explanation: "We would not take any action to prosecute until the Bar asks us to." [Emphasis added].

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There is a long-standing rule that lawyers giving "unsolicited" advice to a layman "shall not" accept employment resulting from that advice. "Shall not"; an apparently flat rule.

But the next words are "except that"—and there follow neatly worded escape hatches through which lawyers for the well-endowed maneuver effortlessly. For example, the solicitation ban does not apply to contacts with a "close friend"—just the sort of person one is likely to encounter on the cocktail-party circuit or at the country club. ("Gee, Fred, my partner Bob is one of the experts on exactly that problem. He saved a client of ours a million dollars last year just on that point alone.")

The usefulness of the country club as a client-getter is confirmed, according to Professor Monroe Freedman, by the fact that "lawyers have been known to take tax deductions" for club dues and fees as "ordinary and necessary business expenses," and by the instance of one "prominent Federal judge" who "resigned from several exclusive clubs upon going on the Bench, explaining to friends that he no longer needed to attract clients."

There is an apparent duality, too, in the kinds of ethical questions that excite the Organized Bar. Here are some that have:

- Should an attorney be permitted to use blue paper, rather than white, for his business cards? (Answer: He should not. As in tennis, all white.)
- Should an attorney be permitted to print a calendar on the back of his business card? (Answer: He should not, lest that promote "repeated use and indiscriminate distribution" of the cards.)

On the question of whether bar groups should take an active or passive role in matters disciplinary, the favored posture is that of the ostrich: unless a rule violation is the subject of a formal complaint, it is treated as if it simply does not exist. That attitude is vividly illustrated in the case of Hoyt Augustus Moore, whose name adorns the eminent Wall Street firm of Cravath, Swaine & Moore. In the early 1930s, Moore was counsel to the Bethlehem Steel Company, whose desired takeover of a small (and bankrupt) fabricator of wire rope ran into opposition from federal Judge Albert W. Johnson. Judge Johnson got word to Moore through



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associates that in return for a payment of $250,000, he would withdraw his objections and see to it that Bethlehem got its way. Far from reporting this solicitation of a bribe to the U.S. Attorney, Moore, who considered the amount "not excessive and not objectionable to him," saw to it that the payments were made—*an act he later openly admitted to a committee of the U.S. House of Representatives.*

Bribing a federal judge is a felony as well as an effort to corrupt the administration of justice. It is hard to imagine an act that would be of greater concern to the Bar's disciplinary authorities. Yet for 14 years after Moore's open admission of that crime,* the Grievance Committee of the New York City Bar Association did nothing and Hoyt Augustus Moore continued his highly prosperous practice of the law until his death, in 1959, at the age of 88.

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When it comes to legal delaying maneuvers, one of the kings (in all likelihood *the* self-proclaimed king) is Bruce Bromley, Esquire, a partner at Cravath, Swaine & Moore—and consider, as you contemplate his behavior and remember Hoyt Moore's, that it has long been one of Wall Street's largest and most respected firms.

To Bromley, the delaying game is precisely that—a game. Not one to be in the least ashamed of. On the contrary, it is a skill to be proud of, to boast of publicly—as Bromley did in a 1958 speech to a conference of judges wrestling with the (to them) vexatious problem of the "protracted case," the gigantic lawsuit that drags on for years. Speaking as if unaware of or unfazed by the oath all lawyers swear upon their admission to the bar ("I will never. . . delay any man's cause for lucre or malice"), Bromley proclaimed his realization, "in my early days at the bar, that I could take the simplest antitrust case. . . and protract it for the defense almost to infinity."

That was no case of braggadocio. As a young attorney, Bromley said, he "resolved to make a stupendous production" out of a government antimonopoly case against Paramount Pictures—and that is precisely what he proceeded to do, dragging the case out for *14 years.* Four of those years resulted from Bromley's insistence that the court sit in each of 62 cities, to force the government to prove separately, *in each city,* the existence of the complaint of block-booking practice (requiring distributors desiring any Paramount picture to take all of Paramount's output, the flops as well as the smash hits). He insisted on this even though, as he later acknowledged, "there really wasn't any disupte about the facts at all," and if the judge had asked, he would "have admitted readily" that his client was using the all-or-nothing booking scheme and the court could have moved swiftly to rule on its legality. But since the judge failed to foreshorten the proceeding, Bromley felt no compunction about putting on a "road show production." He seemed almost to chortle as he told his audience, "As you know, my [law] firm's meter was running all the time—every month for 14 years." But to him that was of little moment: his client, he said, was "very prosperous."

The 14-year delay in the movie case was far from Bromley's crowning achievement. In that same 1958 speech he described, with even greater relish, his *18* years of foot-dragging in a price-fixing case against the American gypsum industry. Once again he unashamedly told his audience that if he had been "called on the carpet" and asked to "admit" that the complained-of price-fixing agreements existed, "we would have done so," and the case "certainly would not have lasted 18 years." Then he added, "I think I ought to confess that during the last part (of the 18 years) I stirred up a fight among the co-defendants *just to keep the case going a little longer . . . .*" [Emphasis added]

Few lawyers, of course, would in public go as far as Weymouth Kirkland, a founding member of the large Chicago firm of Kirkland and Ellis, who is quoted by one of his partners as saying, "A good lawyer is like a good prostitute. If the price is right, you warm up to your client." The lawyers' ethic may have been more nearly captured by the hiring partner of a major Wall Street law firm who, in extolling the challenge and excitement of a major lawsuit to an idealistic young applicant, brought his presentation to a climax with: "And the greatest thrill is to win when you're wrong!" ■

*The admission was made in 1945, after the statute of limitations had expired, thus protecting Moore from prosecution.



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# Memo of the Month

NS 89
(FY 80)

**FEDERAL TRADE COMMISSION**
**WASHINGTON, D. C. 20580**

May 2, 1980

NOTICE TO THE STAFF

FROM: Director, Data Processing and
Information Systems Division

SUBJECT: Weekly Activity Report (WAR)

The FTC staff spent the entire day of May 1st, 1980 preparing for an orderly cessation of agency activities. To reflect accurately on work-force utilization in CPTS/WAR, it is requested that the WAR hours for May 1st be reported in the following manner:

1. Activity Code 00 is to be used in reporting these hours. This activity code is newly created, and is denoted "Orderly Cessation of Agency Operations".

2. These hours should be charged to "W" programs (i.e., W11, W16). For organizations that do not have "W" programs, no program code should be used.

3. Hours should not be charged to projects or cases.

4. Leave should be charged to Activity Code 17 in accordance with regular procedures.

Please check with your organizations' WAR coordinator or the CPTS/WAR Systems Manager (202-523-3367) if you have any questions regarding this notice.

Anthony T. Green

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# My Life in the Reserves, or 'How I Spent My Summer Vacation'

by William Baller

Whenever I watch Army Reserve ads on television, I see handsome, square-jawed young people checking their gear before they jump from a plane or blast a tank. It's good to know that our fighting forces are backed by a reserve of combat-ready actors. But it's hardly the Army Reserve I remember. When I was a member from 1971 to 1977, things were somewhat less dynamic. Talking to my friends still in our "second line of defense," and learning its condition is little different from when I was discharged, I often wonder, "Just what is this $3-billion-a-year operation for? What's the point?" If that sounds basic, it's still more philosophical than the thought that ran through my head constantly when I was actually on reserve maneuvers: "Who's kidding who?"

I had to think that, for instance, on a summer morning in 1971, when the New York State Police finally found our missing truckload of rifles. It was sitting on the shoulder of the Thruway. But where were its escorts, the Dirty Dozen?

Nobody in our Army Reserve caravan—headed from Fort Totten, Queens, to upstate Camp Drum for my first reserve "summer camp"—had noticed when the truck pulled off the road. It had quietly fallen to the back of the line. It wasn't till hours later, when we reached camp, that the truck was missed. A quick sound-off confirmed our commander's worst suspicions—the vehicle was in the hands of the Dirty Dozen, a band of veteran reservists so named for their less-than-exemplary acquaintance with traditional military values. Yet when the cops found the truck, the Dirty Dozen were long gone. Nowhere to be seen. The only thing in the truck was dozens of rifles—lying unguarded, where anybody could have picked them up.

For me, that hardly seemed like regulation. I'd only recently finished the then-required six months' initial training in the "regular" Army, which frowned on leaving truckloads of weapons on public highways. Now—committed to two weeks of "summer camp" and a weekend a month of training for the next six years—I began to get apprehensive about the reserve operation. I worried a bit when almost half of our vehicles broke down at some point during the trip to Camp Drum. It didn't exactly make the unit seem like a coiled spring. I worried more when a personnel carrier veered off the road and smashed

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into a wall of rock. Its driver was the only man available qualified to operate the carrier. He'd gotten tired after no relief and fallen asleep at the wheel. I worried still more when, despite our baby-elephant-walk line, several trucks got lost. Battlefields would pose a somewhat greater navigational challenge than the Thruway.

But I really started to worry when they found the Dirty Dozen. They were a few miles from their abandoned truck in one of the Adirondacks' resort hotels. They'd hiked there when the truck broke down. Why hadn't they radioed, or even telephoned? Hadn't thought of it. Why did they leave their weapons in the truck? "It was hard enough," one said, "to carry our golf clubs and scuba gear all the way here."

That disastrous trip set the tone for the rest of my service in the reserves, although the particular problem of lost trucks was not repeated. In the highest military tradition, our failings worked to our benefit. The unit's record with equipment was so poor, command decided it was unsafe to entrust us with any. So from that summer on, we rode to camp in air-conditioned chartered buses, unencumbered by guns or anything else heavy.

## Baja Ha Ha

Camp itself began slowly. All roll calls and inspections were held in abeyance until the Dirty Dozen could be rounded up. For the remainder of the two weeks, I expected strenuous drills. Instead, I found myself assigned to Cannibalization—dismantling old vehicles to salvage parts. Initially I assumed there might be some training-related labor connected with the assignment. Again I was wrong. My job was to sort through garbled inventory sheets and collate them into some unspecified form—a job I attempted with almost no supervision.

At least I tried to make something of this "work," unlike most of those assigned to Cannibalization. After showing up the first couple of days and pawing through records in a lethargic fog, all but a few of my comrades simply stopped reporting. No one went after them. A couple of men were assigned to actually dismantle the trucks, which required some physical effort. They decided to expedite the process by throwing rocks through the trucks' windows. This did not sit well with the authorities, who ordered the offenders away from the trucks. Because no one was assigned to take their places, progress on Cannibalization came to a sleepy halt. And because the rock-throwers were given no new assignment, they spent the remaining days of camp sunning themselves along the Black River, a bucolic creek that winds through the grounds.

For respite from this nervous pace, there was the annual camp tennis tournament, held at a nearby resort. A far more accessible sport was Baja, using what few vehicles functioned. Baja involved running the largest vehicles you could find down the camp's bumpy, unpaved roads at breakneck speeds. The object was to generate as much dust as possible, and the kind of sudden dips associated with roller coasters. If some two-bit Third World strongman ever challenges us to a duel to the death at Baja, it'll be a milk run.

Unfortunately, they wouldn't let us have tanks for Baja. But we didn't mind. Tanks require practice to drive. And you can't get a tank going fast enough.

You may be wondering, what about target practice? Marches? Closed-order formations and parade rest? Well, we spent almost no time actually firing weapons, or even holding them. Ammunition is expensive, and we all know that in these inflationary times, even the Army must cut back. So, after going to the colossal expense of assembling and equipping reserve troops, the Pentagon saves money by waiving target practice. How often do reservists shoot? Exactly once a year.

When the rare shooting does take place, Reserve duty's carefree mood can turn grim. Reservists, during their initial stints of "regular Army," are supposed to become proficient on standard-issue weapons like the M-1 and M-16 rifles. The annual day of target practice is to confirm their proficiency, or "qualify." Oddly enough, shooting skill with deadly automatic weapons like the M-16 seems to deteriorate even with just one short year of no practice. This surprises headquarters. A Pentagon spokesman told me the M-16 is "like riding a bicycle. You don't have to practice all the time. You just pick it up and you remember."

In my experience, only a handful of the reservists were sharp enough to pass the


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The level of training is so low, the lacuna so profound, that a reservist is no more prepared to join combat than any passerby plucked randomly from the street.

target practice (or qualify). The rest just blasted away in the general direction of the targets, trying to use up their rounds so they could leave. (You are not assigned remedial target practice if you fail to qualify.) Occasionally—because the weapons are ill-cleaned and cared-for, and the reservists have forgotten the details of operating them—summer soldiers are injured by the misfires of their own guns.

## A Removable Feast

Despite the drive to economize by cutting out luxuries like bullets, there is plenty of money around. In salaries, for instance. Pay varies with different units, but many reservists are paid about $2,000 to join, $450 a month for initial training (now cut back from six months to a minimum of four), and $30 on up per weekend tour. Daily pay increases with rank and service. When I left the Reserve, I was a low-ranked sergeant making $80 per weekend. Officers—many of them ROTC grads in their mid-twenties—make about $3,000 a year for Reserve work. (The state-run National Guard, almost identical in purpose and organization to the Pentagon-run Reserve, has a similar salary structure.) This is not princely, but then again it's not bad, considering that you do no work for the money and the meals are on the house.

*U.S. News and World Report* recently advocated attracting more soldiers to the reserves by "increasing pay to a high enough level that recruits would be lined up waiting to join." The magazine did not mention anything about cracking down on training or improving discipline and morale, but, growing reflective, it did point out, that "the cost would be extremely high." It reminded me of an old description of the aftermath of Humpty Dumpty's fall. The King goes to his council and explains that all of his horses and all of his men couldn't put Humpty Dumpty back together again. "Therefore," the King concludes, "it's clear I need more horses and more men."

In some categories of money-wasting, the Reserve surpasses even the regular Army. During my six months of regular service, for example, I was amazed at how much food was simply discarded, to insure that the food budget would never be slashed. But in the lax environment of the Reserve camp, there's no need to throw the food away. It's much too easy to steal.

My unit was provided with food enough for its 250 members. But of this number, no more than 50 of us ever actually ate lunch. The rest, in the manner of vacationers, ate off-base at restaurants. yet if during morning "drills" we did nothing else, it was insisted that each of us sign one (or several) copies of the lunch register, which determined how many rations were issued. The extra food—enough for 200 men—always conveniently vanished. I assure you, it wasn't discarded. Now where do you suppose it went? Several of us brought this up with command, but nothing, to my knowledge, was ever done about it.

Besides this means of awarding yourself a bonus, there were other ways a reservist could make more than met the eye.

In an effort to induce more people into the reserve system—which, according to



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President Carter, is 500,000 below strength—New York City, for one, began encouraging police and firemen to enlist. This seemed laudible. As it developed, though, the arrangement subtracted more from the city than it added to the country. The warriors would juggle their city schedules so they were assigned to work on weekends they knew their units would be called to drill. Then, feigning ignorance, they would apply for "military leave" to fulfill their "obligation." As a result they got reserve pay plus their regular salaries—and often overtime. This arrangement was especially patriotic as it developed at a time when New York City was going through one of its stiffest rounds of budget cuts and layoffs.

Later on, New York State officials bred their own version of this abuse—but made it respectable by legitimizing it. State employees were offered "trial" stints as National Guardsmen. They were officially paid their regular state salaries as well as Guard pay during these "trials." Naturally, lots of folks signed up, tempted by the extra cash and the automatic out when the trial expired. Their commitment was so tenuous it was difficult to persuade—or, more aptly, coerce—them into performing even the most elementary assignments.

## Semper Fraudeles

Everyone knows the reserves won't be of any use during an all-out nuclear war; neither, for that matter, will the regular Army. Even during an extended "limited" nuclear contest, which the Pentagon insists is possible, the reserves will be useless. I doubt that many of my comrades, who get lost on the Thruway, could be pressed into service analyzing telemetry from spy satellites. But wouldn't the reservists be of use to reinforce Army divisions bogged down in a conventional war somewhere?

No, they wouldn't, at least no more than any reasonably healthy, non-certifiable person. My six years of service convinced me that the level of training is so low, the care of equipment so laughable, the lacuna so profound, that a reservist is no more prepared to join combat than any passerby plucked randomly from the street. Throwing the reserves into a fight is out of the question, and the Pentagon knows it. If, in a protracted conventional war, reservists were called up for eventual shipment to the lines, their training would have to begin from scratch, as if they were fuzz-faced recruits. Their "preparation" and "readiness," which cost the taxpayers $3 billion a year, would mean utterly nothing.

Aside, then, from giving the Pentagon and state governors an extra little empire to preside over, do the reserves offer *anything*? As it turns out, their sole value is procedural. Reservists have to go when called. In a war, drawing on them eliminates the time and confusion that would otherwise be required to draft pure civilians.

There is merit to having a pool of volunteers committed to presenting themselves if called. But why go through the listless fiction of their "training?" Reserve registration should continue, but all the frivolous "summer camps" and "weekend warrior" exercises should be terminated. This would save the taxpayer huge sums and detract from our national defense not one bit, since all today's "prepared" reserves would have to take Army basic training before fighting anyway.

Under a training-less reserve, volunteers would simply sign up and stay on a call list for a reasonable period, like the present six years. In the absence of war, nothing more would happen. To induce people to sign, reservists would be paid an initial bonus and perhaps a yearly fee. After all, they would be agreeing to surrender their freedom immediately when needed, and for this they would deserve to be compensated. Thus the reserve would continue to serve the function of persuading people to join the military of their own free will, but stop wasting billions going through the motions of "training."

## Out of Bivouac

Few visions of reform pass through the reservist's head as he bounces along in a deuce-and-a-half, headed for another two weeks of a "summer camp" far less disciplined than the volleyball-and-hayride affairs we usually associate with the term. The main thing that's going through his head is avoiding bivouac.

Nothing so obsesses a reservist as getting out of bivouac, which is a couple of days of marching around and sleeping in field-pack tents. This may seem bewildering to a


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populace so entranced with camping trips and talking to God under the stars, but it's highly practical. Bivouac is one of the very few actual tasks a reservist is ever asked to do. It's the only time—camped out on a flat, open space—he probably can't sneak away. It's the time when alcohol and drugs are hardest to obtain.

The reserve unit to which I was attached was scheduled to do much of its meeting—and, rumor had it, regular bivouacing—in Tobyhanna. Tobyhanna is a pleasant nook in Pennsylvania's Pocono Mountains, where newlyweds pay large sums to relax in heart-shaped tubs and coo to each other about the scenery. Neverthless, we looked on trips to Tobyhanna with trembling dread. When it was announced that one section would be left behind on all Tobyhanna expeditions my unit rallied into a rare show of solidarity—every single one of us tried to sign up for that section.

The most common bivouac dodge is to find a doctor willing to certify you unfit to endure a hike in the woods. This requires a touch of subtlety, for you don't want the doctor to portray you as such a wheezing wreckage that you'd have to be tossed out of the reserves altogether. Thus weekend warriors often develop a number of temporary ailments from which they later enjoy remarkable recoveries—aided, no doubt, by miracle drugs available only during weekday business hours.

## Bilko Hogan & Klink Attys.

At a drill prior to a deployment to the Poconos, one of the outfit's lawyers put in an infrequent appearance. He was dressed, not in the customary fatigues, but in a jogging warm-up suit. Informed that he must come on the next bivouac and no excuses would be tolerated, he was driven to a flurry of action. He spent the next hours trying fruitlessly to get a note from any doctor, dentist, or psychiatrist. He almost convinced the First Sergeant that his presence would doom whatever slim chance the unit had of completing its exercise successfully. He failed at every turn. Desperate, he went to the one person capable of leading him to sanctuary.

The man in question was not a high-ranking officer, prominent politician, or well-connected businessman. He was the PFC in charge of assigning sections. Since all the non-bivouac sections were filled, this young visionary—who orchestrated the unit's business from a bagel stand in Bayside, Queens—hit upon a bold stroke. He created a new section. He staffed it with people of such strategic significance that it would be against the nation's interests to jeopardize them with bivouacs. He created the Legal Section, and instructed it to analyze Army regulations.

Naturally, all the unit's lawyers joined it immediately. They became so proficient in their knowledge of Army regulations that, in addition to never bivouacing again, they began to counsel others on how to avoid this duty.

One sergeant who valued his peace of mind, for example, became a payroll specialist at the Legal Section's advice. Using their help, he contructed a payroll system that met regulation, but was so complex no one else in the unit could understand it. Whenever his excessive liberties were called into question, he would retaliate by being unavailable to process the payroll. That took care of that.

## We Subpoena at Dawn. . .

When I left the reserves, the Legal Section's power was growing stronger. Now, they tell me, much of its clout has slipped away, into the section charged with procuring dancers and other equipment for the annual summer camp party. Nevertheless, the lawyers keep on writing opinions about the regulations, drawing up procedures, and probably drafting proposals for new, even-more-complicated rules.

Based on my experiences, I don't find it at all difficult to imagine other units being compelled to form their own Legal Sections just to deal with the flow of paperwork emanating from the first one. That may not sound to you like a very productive way to allocate our military resources; you may be one of the antiquated minority who think soldiers should know how to shoot and follow orders. But let's face it. In this age of nuclear megadeath, an all-out international conflict seems unlikely. Our enemies will more probably try to attack us through some means less final than thermonuclear destruction—like, say, the court system. If the Russians ever decide to sue us, the Army Reserve stands ready. ■



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# Who's Who in the Carter Administration

Everyone has been warning Edmund Muskie to beware of **Zbigniew Brzezinski**. Not "Who's Who." We say, watch out for **Lloyd Cutler,** who is increasingly involving himself in foreign affairs. American lawyers have thoughtfully constructed a system of government in which almost every issue has some legal ramification. The clever general counsel, whether at the Tea-Tasting Commission or the White House, has always recognized and exploited this fact—and Cutler is one of the cleverest.

## In

### WHITE HOUSE

Assistant Director, Transportation and Labor, Domestic Policy Staff—**Myles V. Lynk** was a special assistant to HEW Secretary Harris.

Associate Director, Human Resources, Education, Veterans, and Labor, Office of Management and Budget—**Gilbert S. Omenn** has been an associate director of the Office of Science and Technology Policy.

Associate Director, Natural Resources, Energy, and Science, OMB—**Katherine Schirmer** has been an associate director of the White House Domestic Policy Staff.

### COMMERCE

Director, Office of Public Affairs—**Ron Hartwig** has been head of public relations for General Motors in Los Angeles.

### EDUCATION

Assistant Secretary for Civil Rights—**Cynthia G. Brown** was deputy director for Compliance and Enforcement in HEW's Civil Rights office.

Assistant Secretary for Legislation—ex-Congresswoman **Martha E. Keys** has been special assistant to Secretary Hufstedler.

Assistant Secretary for Special Education and Rehabilitation—**Edwin W. Martin** was Deputy Commissioner for Education of the Handicapped in the Office of Education.

Assistant Secretary for Vocational and Adult Education—**Daniel B. Taylor** has been a lecturer at the Harvard Graduate School of Education.

### INTERIOR

Director, National Park Service—**Russell E. Dickenson** has been Director of the Rocky Mountain Regional Office.

### STATE

Secretary—**Edmund S. Muskie**

### TRANSPORTATION

General Counsel—**Thomas G. Allison** has been with the Washington law firm of Preston, Thorgrimson, Ellis and Holman.

### AGENCIES AND COMMISSIONS

**Community Services Administration**
Director—**Richard J. Rios** has been director of the California State Office of Economic Opportunity.

## Out

**Commerce**
Acting Assistant Secretary for Trade Administration—**Stanley J. Marcuss** will open the Washington office of the New York law firm, Milbank, Tweed, Hadley and McCloy.

**Interior**
Director, National Park Service—**William J. Whalen** was fired after a three-year term highlighted by a running battle with both environmentalists and park concessionaires.

**Justice**
Executive Assistant Director for Administration, Federal Bureau of Investigation—**Homer A. Boynton, Jr.** will be vice president in charge of investigative services for Wells Fargo.

**State**
Secretary—**Cyrus R. Vance** has resigned.



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# DESTROYING THE ECONOMY IN ORDER TO SAVE IT

## What a way to win a war...

## by George Brockway

If war is too important to leave to the generals, money is too important to leave to the bankers. But mark this as the year when that seemingly obvious lesson was lost on President Carter and his challengers. In a rare display of bipartisan unity, they agreed that bankers—especially the political bankers, of whom Federal Reserve Chairman Paul Volcker is chief mullah—are sacrosanct, and that we should follow them uncritically into the war on inflation, much as we were once expected to follow the generals into Vietnam. My guess is that the outcome is going to be very similar.

I write not as a theoretician but as a businessman, eager to sell books, which is what I do for a living. It is part of my job to watch the political bankers from a respectful distance and try to figure out where they are leading me. I can see that Mr. Volcker stands tall in the saddle. But so did George Armstrong Custer. My fear is that even if Mr. Volcker finds a way to win his war—that is, to reduce inflation, at least temporarily—many of the ordinary foot-soldiers like me will be too dead to feel grateful.

The political bankers attacked inflation by raising the interest rate. This was done, they said, to restrict the amount of money in circulation. Why should we do that? Well, *something* had to be done, and everyone knows that inflation is at least partly the result of too much money chasing too few goods.

Was that really happening? Did you go into a store at any time in the past several months? Any kind of store—hardware or supermarket, discount department store or specialty boutique? What did you find there? Was anything in short supply? Anything at all—even plastics and other petroleum products? What *is* this nonsense about "too few goods"?

Yes, there are things in stores that you can't afford to buy at the posted prices. If you can't afford to buy something, does that mean you have too much money? What kind of logic is that?

Anyone who encounters the real world on a regular basis might be tempted to conclude that the political bankers had things inside out. In the real world, there's too *little* money in circulation—where it counts.

*George P. Brockway is chairman of a New York publishing firm, W.W. Norton & Company.*

## Working Without A Net

Looking back over the economic events of this century, I think we can detect three substantially different ways of doing business—that is, ways of selling things to people. (It may seem obvious that this is what business is all about, but if you spend much time reading the financial pages, you



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Everybody knows inflation is "too much money chasing too few goods." Have you been in a store recently? Was anything at all in short supply? "Too few goods?"...

are likely to forget that the *real* bottom line of financial activity is the mundane matter of somebody buying something to have and to hold.)

The first way of doing business, which lasted until the Depression, was cash-on-the-barrel. To be sure, there was credit available for speculation, backed up by handsome steel-engraved certificates that failed to withstand the scrutiny of October 1929. The privileged minority had charge accounts—but these were expected to be settled monthly. It was not possible to cash a check except where you were known personally, and not always then. Mortgages were usually written for a year's time; they were renewed only if your standing remained good. Credit was tight—but not much credit was needed to float the economy.

The second way of doing business lasted from the New Deal until roughly the Eisenhower administration. It became a matter of policy to encourage the use of credit as the only readily feasible way to stimulate buying during the Depression, and this policy became institutionalized after World War II. True, Macy's still advertised "6% Less for Cash," but that was an echo from the past. Government agencies guaranteed mortgages for 20 years at four percent, with only ten percent down. Chryslers and Magnavoxes, Maytags and Barcaloungers were all sold on the installment plan. Checking accounts became commonplace, and almost anyone could cash a check in almost any local store, because merchants came to prefer the risk of a bad check to the loss of an irate customer. More money was needed to float this kind of economy, but the government kept interest rates low, and the money was there.

The third way of doing business, which prevails today, is characterized by credit cards. Credit cards themselves account for only a small portion of consumer debt, but they symbolize a philosophy that encourages almost anyone to buy almost anything almost anywhere on credit. When this happens, of course, the seller has to wait for his money. And behind him, the wholesaler waits for his money too; and the manufacturer waits; and back there at the beginning of the whole process, the producer of raw materials waits. Where trade a half century ago was largely current, it is now largely afloat. In effect, everything is 45 days past due.

This way of doing business has been explosively dynamic. Just as the New Deal shift from one-year mortgages at six percent (or more) to 20-year mortgages at four percent (or less) launched a housing boom, the credit-card shift has created a fantastic expansion in the supply of all kinds of consumer goods, and consequently an expansion of the whole economy. In the 25 years from 1955 to 1980, the nominal Gross National Product multiplied almost six times. That was not due solely to the increase in consumer credit, of course, but it added up to an astronomical leap in the need for money.

However ebullient our credit economy may be, it has a breathtakingly delicate equilibrium, like a high-wire artist working without a net in a full gale. In theory, this should not be the case. In theory, the economy could be stable at any rate of activity you choose (if you ask me, rich is better).


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> . . . of course, there are things in those well-stocked stores you can't afford. If you can't afford something, does this mean you have "too much money?"

A barter economy will be sluggish and poor, and a credit economy will be vibrant and rich, but both could theoretically be stable. Actually, however, our economy is notably susceptible to shocks. Something like an oil embargo can start it quivering like a tuning fork. When they hear the mysterious humming, oil-dependent industries protect themselves in the only way they know—by raising prices. This spreads, slowly at first, and then much more rapidly as everyone tries to hedge against real or imagined calamities. And then the political bankers, who know about too much money chasing too few goods, do what comes naturally to them: they raise interest rates to keep things from heating up. It hardly matters whether they then lower rates again. The mere use of the tactic—and the threat of its repeated use when things heat up again—creates its own shock wave.

That's because a rise in the interest rate today quickly affects all business—because all businesses today are afloat on a vast and deep sea of credit. The first line of defense against rising interest rates is an extension of the float. Instead of settling accounts in 45 days, retailers suddenly discover trouble in their new micro-computer, the kind of trouble that somehow prevents them from getting a check into the mail for another six weeks. . . and everyone knows how slow the mails are.

The manufacturer, however, finds it somewhat more difficult to dodge behind this shield. Many of his costs are fixed, in plants that must be kept up and payrolls that must be met. He must keep on borrowing to cover the extended float, even at the high interest rate decreed by the political bankers. And so he does what comes naturally to him: he raises prices. He raises them, in fact, against the very uncertainty of the interest-rate situation. To paraphrase Calvin Coolidge, when many people raise prices, inflation results. In their choices of tactics, the political bankers have chosen to fight fire with fuel.

## Moonshine Lullaby

At this point we might glance at another notion endorsed by President Carter, the Congress, and the political bankers. "We must," they chant in solemn unison, "increase productivity." Why?

They give two reasons. First, because inflation is caused by (can't you remember *anything?*) too few goods being chased by too much money. Therefore, bring on the goods. But the goods will cost too much unless they can be produced more economically. Here, the thinking is that wages are too high, relative to output, thus forcing prices up and making it difficult for us to compete with Germany and Japan. What seems to be at stake, then, is our national productivity. But since we have more than seven million people unemployed, a moderately rational man might think that our national productivity (total output divided by total labor force, including the jobless) would not be improved by making more people idle. And someone will have to arrange welfare payments to the idled workers, an activity both costly and nonproductive. Well, yes, these are irritating details still to be addressed, but in the meantime we must *press on*, encouraging



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everyone to invest in more efficient (that is, labor-idling) plants.

And how do we encourage manufacturers to invest? We play with the interest rates, jacking them up to 20 percent for awhile, then letting them drop when enough of the economy shows signs of fibrillating. What a dandy strategy! If manufacturers didn't think it was prudent to build a new plant back in the days when they could borrow at a stable ten percent or less, what is it that will make them want to plunge ahead at nearly twice the cost, and in an environment where they can't be sure what the political bankers will do to them next?

Not to worry, the political bankers have anticipated these concerns and have their moonshine ready. It's a tax credit, providing speedier depreciation for investments in labor-saving plants. This elegant solution is not without its critics, of course. They note that the tax credit reduces the government's income and thus increases the government's deficit. This troubles them, because they have had it dinned into them that the deficit is an evil thing, something that looks very like the root of inflation, because it's what we have to print money to cover. Moreover, they can't see how it will really help things to shrink government income just at the moment that government expenses—those welfare payments—are being increased. And they also detect that the tax credit is designed to help most those who need it least.

The quibbling here is over the basic distinction between profit and loss, and their relationship to taxation. If you run a large, highly profitable enterprise, you will naturally be attracted to any available tax deduction. On the other hand, if you are running a small, struggling enterprise with no prospects of finishing the year in the black, a tax deduction is no help to you. What are you supposed to deduct it *from*? You can't appreciate a gift of free hay unless you first own a horse. The government's largesse is meaningful mainly to those who already have large, profitable stables. For other people, it's a hoax.

But let's put all of this nasty carping aside and consider what actually happens when a large, robust business takes the tax credit, borrows money, and builds a shiny new labor-saving plant (no doubt abandoning New Jersey for Arizona in the process). At long last, the facility comes on line, as they say. The time has come to price the products the plant produces. Since the plant is new, nearly devoid of workers, and largely tax exempt, you might think prices would be set mighty low. That's because you don't understand the generally accepted principles of accounting. These require the prudent manager to peer ahead into the mists, looking to the time when the tax credit has been used up and the plant is crumbling, encountering upkeep costs that will surely be very big (after all, we have the graphs from the past few years, and we simply extend this curve upward, assuming prudently that inflation will continue, and building in a fudge factor for the unknown.) As prudent managers then, what should we do? Well, if I had only one guess, I'd guess that the last thing we would do—voluntarily—is cut prices.

Fierce competition might force us to make concessions, of course. But where will that competition come from? Perhaps from the Germans or the Japanese, but certainly not from the smaller domestic companies that couldn't afford to modernize *their* plants. You remember all those companies that couldn't afford the horses, let alone benefit from the free hay? Oh, *them*. Wonder whatever happened to them...

## In The Long Run

We can get a clue by taking another look at the prevailing philosophy of the political bankers. Be reasonable, the bankers say; inflationary pressures have been building for years, and you can't expect us to cure inflation overnight. Life will be very hard for awhile, they say, but we must stay the course. It will be good for us in the long run.

No matter how much we may want to admire their nerves of steel, there are ample grounds to be troubled about their reasoning. One is that, as Keynes used to say, in the long run we'll all be dead. This fact alone naturally causes ordinary people to be preoccupied with the short term. The other is that what the bankers are giving us in the short term is a recession. (Yes, it *does* look like a depression, but they insist on using their own nomenclature.) And what will this recession do? Do you still have to ask? It will reduce purchasing power, so


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> When reporters asked Volcker if his policies would produce high unemployment, he said, "Yes, and the sooner the better." *Somebody* has to accept the honor of making the system work for the rest of us. . .

there will be fewer dollars chasing all those goods. Of course, in a recession fewer goods are produced, too. . . but let's not wander off into digressions like that.

Let's not even pause to fret over how that reduction in purchasing power comes about. No one denies that the word "recession" is simply a euphemism for arranging to have lots of people thrown out of their jobs. After all, when reporters asked Mr. Volcker if his policies would not produce high unemployment, he said, "Yes, and the sooner the better." *Someone* has to stop chasing those goods; someone has to accept the honor of making the system work for the rest of us. You remember; we must stay the course.

Fine. Let's confine ourselves to looking not at people but at businesses struggling to stay the course in a recession induced by high interest rates. First, we can divide businesses into two basic categories: those that can get loans, and those that can't. Members of the second category go out of business. They may simply go bankrupt, or (more likely) they may sell out to a conglomerate, but either way you won't find them in the phone book anymore. They won't be doing anything helpful about productivity, and the money used to acquire them won't be available for productive purposes either.

Next, there are the businesses that can get loans—perhaps only a couple of points over the prime rate, to which they have to add the equivalent of another couple of points for the compensating balances the banks have dreamed up. Some will opt to wait, hoping that when the political bankers ease the screws off, loans will be more attractive again. But waiting is not always an option, and sooner or later a good many businesses are forced to recognize that they can't hack it either. That helps to account for the extraordinary merger activity today among companies that used to consider themselves feisty and independent: the number of mergers valued at $100 million or more is nine times what it was just five years ago.

The result of all this selling and merging is obvious, isn't it? The big get bigger. And how do the big survive? It's not through that wonderful old myth, "economy of scale." Nobody who has ever experienced corporate bigness first-hand could advance that argument with a straight face. Efficiency is not what matters. What matters—even in *good* times—is how to turn market control into access to cheap credit, several points *under* prime, via commercial paper and debentures attractive to timid investors (people who would rather bet $2 on a "name" horse to show than risk money on an unknown from a struggling stable). This kind of marketplace clout is important in the best of times. In bad times it is the difference between life and death. So the grand plan of the political bankers assures that the big will get bigger—very much bigger, the longer adversity lasts—and our ideal of a free-enterprise economy grows more wistful by the day.

And if you doubt, for a moment, that this trend has an impact on such cherished goals as improved productivity, spend a day rummaging through the records of the Securities and Exchange Commission. The SEC recognizes that there is a direct



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correlation between the volume of small-business venture-capital undertakings and the number of wizard ideas that appear on the marketplace, and researchers measure the "national innovation rate" in terms of the number of such offerings. The rate is now *five percent* of its level in the 1950s. The small company with a bright idea can't get money to build a prototype unless it sells out to a larger company. But the big company, having swallowed its incipient competition, feels no special urgency about rushing the new idea to the marketplace, where it would compete with the company's existing products. In this respect, it may be hard to quantify the damage done by the political bankers—nobody keeps authoritative statistics on stillborn ideas—but when the bankers cry out for "productivity," they should devote a moment of silence to the memory of those who tried to respond, only to find the teller's window closed.

## Where Credit Is Due

Let's make the daring supposition that Paul Volcker, William Simon, and Milton Friedman haven't been actively conspiring to deliver the rest of American business into the hands of the *Fortune* 500. Let's assume instead that, with the best intentions in the world, they simply are all wrong, and that what the country really needs is more and cheaper credit. At once, domestic business becomes easier to do, so more of it is done, and more people have jobs.

So far, so good. But a lower interest rate causes a flight of capital abroad, at least initially, and the dollar falls on the international exchange. Jingoistic pride aside, what's so bad about that? It means we have to pay more for what we buy abroad—and we are paid less for what we sell abroad. In a word, imports are discouraged and exports are encouraged. Even now, the relatively high prices of Japanese and German automobiles have given Detroit one more opportunity to learn from past mistakes and recapture its disaffected customers.

Nevertheless, there's no getting around the fact that imported raw materials increase in price as the dollar falls (price increases in manufactured goods don't matter so much, because we can manufacture them ourselves). Coffee, chrome, bauxite and oil inch upward. From this fact we cannot altogether hide, although we should not be unduly intimidated by it. After all, as the price of bauxite goes up, the incentive to recycle beer cans also goes up, and in due course the need for energy in the aluminum industry levels off. And OPEC countries, no longer attracted by our high interest rates, become attracted by our low prices. This results in minor unemployment in the banking business (although mortgage departments will reopen) but increased employment nearly everywhere else. Increased employment means decreased income transfers (as various kinds of dole are now delicately called) and might even lead to a shrinkage of the bureaucracy, although this is scarcely to be counted on.

Lowering the interest rate should bring an immediate leveling-off of the Consumer Price Index, because of the large part that mortgage and other interest charges play in its calculation. A leveling-off of the CPI causes a leveling-off of all those wage payments and income transfers that are indexed, and that in itself reinforces the stabilization process. These effects, it can be argued, are obviously a numbers game and incidental to the main event, but they are nonetheless real for that. After all, it was the statisticians who first told us about inflation. Why shouldn't they have the pleasure of announcing good news for a change?

Political banking still has its attractions, but not for the dwindling breed who still like to think of themselves as entrepreneurs. There is no escaping the bald fact that good ideas in the business world can only be nourished by access to money. To deny that access, or to make it subject to unpredictable roller-coaster manipulation, is roughly the same as denying water to a tree. The difference in the business world is that big trees can absorb little trees, and outwardly the forest will still look healthy—for a time. But when the big trees go over, it will be with a series of crashes so mighty that even the political bankers will be forced to notice. Then, we may assume, they will rush around, trying to plant seedlings and talking boldly of long-term irrigation schemes, and somehow expecting that we will still trust them. The most dismaying possibility is that we will. ■


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# HOW TO MAKE THE MOB MISERABLE

## The Cash Connection

by James S. Henry

*Whose picture is on a $100 bill?*

I asked that question four years ago in this magazine.* I was trying to dramatize the increasing and mysterious demand in our economy for currency in large denominations—$50, $100, $500 bills and up. My claim was that while the number of "big bills" in circulation was growing, the average law-abiding citizen had increasingly little use for them.

Well, time's up—do you know the answer yet? Have you even seen a $100 bill in the past four years? More than once or twice? If not, you should know that $100 bills now make up over a *third* of the $120 billion in U.S. currency in circulation, up from a fourth four years ago. That's an average of almost five $100 bills per household—two for every man, woman, and child in this country. This is indeed odd, since the ordinary American probably has less need for cash now than ever, what with the increasing use of credit cards, payroll deductions, sophisticated cash management techniques and the beginning of electronic funds transfers, all of which might be expected to *reduce* the demand for currency.

If you don't use this cash, who does? Not the banks or businesses. They know what has happened to the value of paper money, and they hold as little of the stuff as they can get away with. Currently, bank and business demand accounts for less than 20 percent of the cash outstanding in the U.S.

There are more logical suspects—people who need a highly liquid, anonymous form of wealth, something one could slip into an unmarked envelope, or stuff easily inside an ordinary suitcase. They include tax evaders, drug traffickers, illegal gamblers, loan sharks, fencers of stolen goods, and corrupt politicians, among others. In my previous article, I estimated that in 1976 tax evasion alone might account for $14 billion of the $94-billion cash stock then outstanding.

In light of these facts, I also proposed a plan: a surprise currency recall, similar to those that had been conducted by governments in post-World War II Europe, and Latin America, and by our own military in Vietnam. On any given Sunday, the Federal Reserve would announce that existing "big bills"—$50s and $100s—would no longer be accepted as legal tender, and would have to be exchanged at banks for new bills within a short period of time. When the tax cheats, Mafiosi, and other pillars of the criminal community rushed to their banks to exchange their precious notes, the IRS would be there to ask those with the most peculiar bundles some embarassing questions.

In the past few years, the cast of suspected big-bill users has gained some surprising additions—more about them later—but the case for a cash recall has, if

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*"Calling In The Big Bills," May 1976.



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anything, gotten stronger. Unfortunately, my original proposal apparently has attracted only fleeting attention from the nation's policy-makers, who seem to have dismissed it as either administratively impractical or as a one-shot action that would have no long-run impact on criminal behavior. (The use of big bills is now being studied by an interagency task force, but since the first recommendation to come out of this task force was greater reliance on the Susan B. Anthony dollar, I'm not banking heavily on its analysis.)

Naturally, I believe that this cool reception is not the fault of my plan but the symptom of an unimaginative bureaucratic mentality. My natural inclination is reinforced by new evidence that has accumulated over the past four years to support my original arguments. Coupled with the attention recently paid by the media and Congress to the "underground economy," the prominent role of big bills in the careers of such worthies as Tongsun Park, and the recent decision by the Israeli government to conduct a currency reform of its own, this evidence prompts me to try again.

## Large, Unmarked Bills

First, let's review the evidence that originally led to the conclusion that currency demand in the U.S. is abnormally high, and that various forms of illegal activity are responsible:

- The U.S. Treasury's estimate of currency in circulation outside the banking system has reached nearly $1,600 per American household, despite the fact that most people have little use for so much cash. Neither inflation nor economic growth explains this increasing demand. Even in constant dollars, the value of big bills in circulation has increased nearly 7 percent each year through the 1970s, while the GNP has risen only 3.2 percent per year. And most people seem to have responded to the tax that inflation imposes upon them by increasing the *velocity* of their cash holdings—the speed with which they pass on their cash to others. The faster the bills are passed around, the fewer are necessary to conduct a given volume of business. Meanwhile, the trend toward a "cashless" consumer society has continued apace. So the *level* of demand for cash is very peculiar in and of itself, quite apart from any *increase* in this level.
- The most dramatic growth in cash demand has been for large denominations. Correcting for inflation, the number of big bills per capita has more than quadrupled since 1929. In the past nine years the number of $100 bills in circulation has increased by an average of nearly 15 percent per year. Now, inflation does make it more practical for individuals to carry bigger bills. But there is strong evidence that the dramatic growth in big bill demand is out of proportion to the growth of ordinary transactions requirements. For example, while the ratio of all cash in circulation to retail sales has fallen through the 1970s, the equivalent ratio for large bills has risen. This growth does, however, correlate suspiciously well with the recent rise in effective personal income tax levels (and hence with the incentive to evade taxes).
- Although for obvious reasons there are no detailed measurements of the use of cash in criminal activity, the role of big bills is supported by both common sense and a great deal of anecdotal evidence. Cash eliminates troublesome bank records, and, for organized crime, the need for mutual trust. And the ability to insist upon cash payments from customers opens up a special incentive to tax evasion by self-employed people in high tax brackets, such as doctors and dentists. Large denominations simply make it easier for these people to hide and transport a great deal of money. For example, there was the reported case of a dentist whose wife accidentally threw a coffee can containing $20,000 of unreported income into the trash. Organized criminals tend to be more professional in their methods of concealment, but the basic principle is still the same.

I would now like to add to this evidence two significant clues that have turned up recently. Both involve patterns in the currency flow between banks in the Federal Reserve System.

One of these patterns, first documented in an August 1979 staff analysis by the U.S. Treasury, centers on the unusual surplus of currency that has been turning up in Florida's Federal Reserve banks in the 1970s. In 1979, for example, about $5 billion more in currency was turned in to the Federal Reserve banks in Miami and


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Jacksonville than was paid out, of which over $2 billion was in $50s and $100s. This surplus seems very odd, since the Federal Reserve system as a whole paid out much more currency than it took in in 1979 (nearly $10 billion more), and Florida was the only state whose Federal Reserve banks recorded net currency inflows that year.

Of course, there is substantial tourist traffic to Florida from other states and from Latin America, which might account for some of these inflows: the Florida State Division of Tourism estimates, for example, that about 32.8 million tourists visited the state in 1979, spending nearly $13 billion. But many American tourists simply don't carry much of their spending money in the form of cash. I have analyzed the Federal Reserve's data on currency receipts in Miami and Jacksonville back to 1970, and the surpluses cannot be explained by tourism. While Florida did record significant currency surpluses as early as 1970, the recent growth of these surpluses had simply been too large to be the product of such "normal" economic activity. From 1976 to 1979, while Florida tourism growth averaged just 3.7 percent per year, its currency surpluses more than tripled. In 1979 alone these surpluses grew from $3.3 billion to about $5 billion, and the $100-bill surpluses rose from $800 million to $1.5 billion!

Why is all this cash pouring into the Florida economy? If I am right, the Florida cash surpluses are simply one of our first good statistical footprints of the "underground economy." In particular, it seems likely that they reflect a dramatic rise in the volume of illicit drugs moving through Florida. Since the mid-1970s, when President Nixon increased police surveillance along the Mexican border. Florida has become the *entrepot* of choice for most of the marijuana and cocaine flowing to the eastern United States. Large drug caches are landed secretly on one of the state's thousands of beaches or many private airstrips, or are just strapped to the legs or back of a "mule" and walked through Miami customs. The caches are then processed, divided into smaller lots, and resold to middlemen—in exchange for large-denomination bills.

The middlemen's "retail" sales on the streets of New York, Baltimore, and Boston are typically paid for in small bills—$10s and $20s—which must then be converted into the more convenient $100s for the trip south. This cash conversion problem can be a serious one for the drug dealer: two detectives on the Manhattan drug homicide squad recently described to me the case of a local pusher who had stashed small bills waist-high around the four walls of a room in his apartment because he couldn't exchange them as fast as they were coming in.

Of course, not all the cash going south necessarily goes directly to Florida. Colombia, for example, is a key wholesaling center for cocaine and marijuana. In 1974, the Central Bank of Colombia asked the U.S. Federal Reserve to open a branch office in Bogota, just to handle all the American dollars that were turning up there.

Nevertheless, the data we have on Florida's cash inflows permit some rough estimates of the wholesale drug traffic that depends on the use of cash. The ratio of cash surpluses to reported income in Florida tripled from 1970 to 1974. If we assume that all of this increase was due to increased drug traffic, we derive an illegal cash surplus of about $1.9 billion in 1978 and $3.3 billion in 1979. The illegal income that this cash reflects may be even higher, since several hundred dollars of income can be serviced by one $100 bill if the bill changes hands fast enough. If we assume, conservatively, that the "velocity" of cash in the Florida underworld is three we come up with illegal income figures ranging from $5 billion to $10 billion in 1979. This would make drug traffic one of the largest sectors of the Florida economy, and certainly the most rapidly growing.

## Bakshish and Bombs

The second recent clue to current uses of big bills involves recent foreign purchases of new $100 bills. The exact dimensions of this activity are unclear because the Federal Reserve tends to keep plenty of "new" and "fit" bills in supply and doesn't usually notice any unusual purchases of currency unless they threaten to exhaust existing inventories. This apparently came close to happening on several occasions, however. In July 1977, the New York branch of the Fed began receiving orders



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When the tax cheats, Mafiosi, and other pillars of the community rushed to the banks to exchange their precious big bills, the IRS would be there to ask some embarrassing questions. . .

for up to $20 million per day of new $100 bills from one of its member banks. This level of demand continued for about three weeks, nearly using up the supplies of new $100s in New York. Then it moved on to the Boston and Chicago Fed branches. The total size of the purchase is uncertain, but apparently at least $150 million was acquired during this one period. Inquiries by the Fed to the commercial banks concerning the purchasers' identities were not answered, except that an indication was given that the bills were destined for the "Middle East." Similar block purchases apparently have recurred several times in the past three years, and there is no way of telling how many others have escaped attention. The most recent known purchase involved the Houston Fed bank, which began receiving unusual orders for large quantities of new $100s from the First City National Bank of Houston during the last half of 1978. Between October 1978 and December 1979, about $10.4 million per month in new $100 bills was purchased by First City and then resold to the Main Bank of Houston, a non-Fed member bank owned by a wealthy Yemeni, Khaled Bin Mahfouz. Federal Reserve officials believe that the Main Bank then sent the bills to the National Commercial Bank of Saudi Arabia in Jeddah—another bank owned by the Mahfouz family.

There are several theories that might explain this unusual burst in the foreign demand for $100 bills. It might reflect, for example, a foreign preference for holding liquid assets in tangible form. But while there may be something to the notion that people in developing countries—or Arabs, in particular—prefer holding tangible assets to bank deposits, such a preference did not suddenly appear in the late 1970s. Nor is it clear that U.S. currency is such a "tangible" asset—the dollar depreciated by five percent against the riyal from 1977 to 1979. Indeed, the dollar's weakness has prompted OPEC to explore denominating oil payments in other currencies.

Alternatively, the cash going overseas might reflect "ordinary" transactions demand for U.S. currency abroad, since many foreigners seem to prefer to carry currency rather than traveler's checks. For example, there is the case of the wealthy Egyptian going through customs before me in Cairo last spring, carrying an attache case stuffed with pound notes and $100 bills. There are also the anecdotes I have accumulated from salespersons at Tiffany's about "rich Arabs" who pay cash for their $5,000 gold watches. But again this is not a phenomenon peculiar to the 1970s, and I doubt that it accounts for the uneven bursts of currency buying that have recently been occurring.

The most plausible explanation for the large foreign block purchases of U.S. currency is really a variation on the explanation for the growth of currency demand *inside* the United States. The use of cash facilitates a great variety of transactions that, for legal, political, or economic reasons, are best done under cover.

In the case of the Middle East, the relevant transactions are not drug traffic or tax evasion, but political and commercial payoffs. While both are ancient traditions in the Arab world, there is evidence that they have grown substantially in recent


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years. Huge development programs financed by oil money have placed government ministers in a position to hand out lucrative contracts and "inside information"; the recent scandal involving kickbacks by the Italian State oil company, ENI, to a Saudi Minister is a typical result.

Political instability in the Middle East has probably been an even more important source of demand for U.S. currency. For example, I am told by a source with direct connections to the Christian Phalangist party of Lebanon that when the Lebanese civil war became very hot in 1976-1977 the Saudis channeled large sums of U.S. currency to the party to finance arms purchases from the United States. Similarly, when the Saudis want to send a covert subsidy to the antigovernment party in South Yemen, dollar bills are far more discreet and acceptable than checks or riyals. Another well-placed source recently described to me a $30 million payment made last summer by the Muslim brotherhood (with Saudi support) to the Afghan rebels. The payment was made in U.S. currency.

Others, of course, face similar problems in financing their favorite causes. Russian rubles, South African rands, and Iraqi dinars are certainly not generally accepted currencies, while gold is very hard to transport and certify. An informed source familiar with currency markets in the Middle East tells me that, indeed, there has been a large and growing Soviet demand for $100 bills on the region's black markets, probably to supply their political needs.

If I am right about the magnitude of these foreign block currency purchases, they help explain the strange distribution of $100 bill payouts observed in recent years at several Federal Reserve branches. For example, from 1976 to 1978, the net payout of $100s at the New York Fed rose 62 percent, to nearly $6.2 billion, while net payouts of $100s by all other Fed Branches rose just 15 percent. New York payouts of *new* $100s rose 85 percent, while in the rest of the system these payouts rose only 38 percent. Fed branches in Houston, Boston, Baltimore, and Denver also showed surprising jumps in purchases of new C-notes. If, for the system as a whole, the demand for new $100s had simply continued to grow at its 1970 to 1976 average from 1976 to 1979, total demand for bills would have been cut by a billion, which gives us a rough idea of how large the foreign demand just for new $100s may have been.

## Milking the Mob

Overall, then, our new evidence on the uses of the U.S. currency makes the subject even more interesting than it appeared to be four years ago. We have identified a very odd cast of characters that has high stakes in the availability of big bills, and, at any one time, is likely to be sitting on thousands of them. This cast includes drug dealers, tax evaders, arms merchants, corrupt politicians, gangsters, "kickback" contractors, Arab sheiks, and Soviet commissars, to mention just a few. On the whole, the activities pursued by this motley group could not be less virtuous, and it would be a valuable contribution to human welfare, as well as great fun, if we could just make life a little more difficult for them. How might this be done?

This brings me back to the subject of a cash recall. Imagine the panic that would strike our criminal community if, all at once, it had to liquidate its enormous hoards of big bills, or else explain where they came from. Any single criminal, acting alone, might be able to dispose of his cash without much trouble. But when all criminals tried to convert their cash at once, they would bump into each other at every turn, competing for the scarce alternatives to cash, trying to unload their bills through innocent-looking outlets, and generally calling attention to themselves.

The recalls could be repeated, at random, every few years or so, raising the "transaction costs" of doing illegal business—or else most big bills could be taken out of circulation completely.* How much

*An alternative to a recall, for the faint of heart, would be to gradually remove big bills from circulation over a period of several years. This would eventually render criminal activity much more difficult, but would not offer a recall's opportunity for catching criminals or destroying the value of their assets. A comprehensive Electronic Funds Transfer System (EFT) would offer even greater potential for reducing the volume of paper currency in circulation and making covert transactions more difficult. Certainly this virtue of EFT should be considered when we debate the system's desirability.



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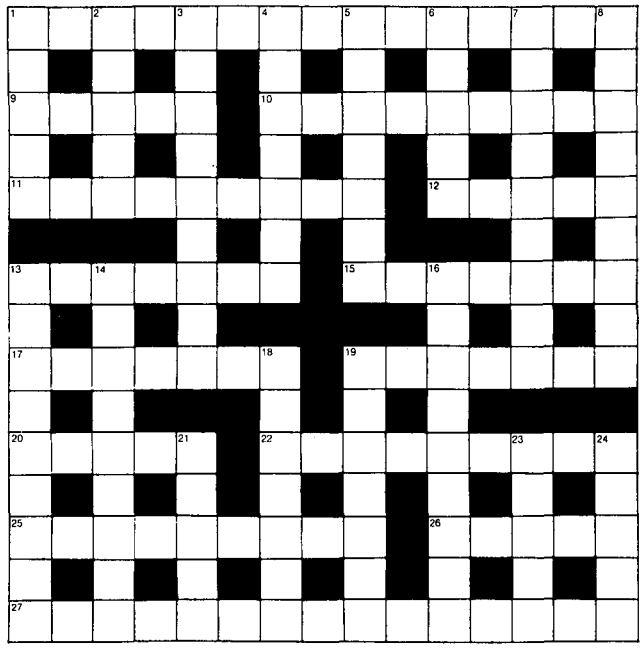
# the political puzzle

by John Barclay



*The numbers indicate the number of letters and words, e.g., (2,3) means a two-letter word followed by a three-letter word. Groups of letters, e.g., USA, are treated as one word.*

**ACROSS**

1 First choice in 36 states? (7,8)
9 Employing something in jealous ingratitude. (5)
10 How that crazy Mr. Ankford partook. (5,4)
11 Mind noise scattered to an extent. (9)
12 Car arranged for deans. (5)
13 Optimistic about hill bus. (7)
15 Carter comes back before tea to disavow. (7)
17 Confusion to allot to one of the Jones boys. (3,4)
19 Composition of sheared bricks. (7)
20 Consumed and beaten in the end. (5)
22 Persuades one of the DiMaggio brothers in studies. (9)
25 Special invitation to eye clamor. (4,5)
26 Force is in limp elephant. (5)
27 Saying "thank you" to the hostess, for example? (5,10)

**DOWN**

1 Poet of note? (5)
2 1502 and nothing fitted for language. (5)
3 Confused near giant country. (9)
4 Why his did upset dialect. (7)
5 Apprentice gets fifty nearer in a way. (7)
6 One thousand in overturned case are good to eat. (5)
7 Wild air tirade is subject to atomic exposure. (9)
8 Mention as unusual names. (9)
13 Flower bowl not for oleo. (9)
14 Circus artist spins minor tale. (5,4)
16 It's the custom to let idiot rant insanely. (9)
18 Coronal achievement for treaty city. (7)
19 Leader of the House, very in, can be King. (5,2)
21 Poor result in knee dynamics. (5)
23 With corn island will get your goat. (5)
24 Loans arranged for art show. (5)

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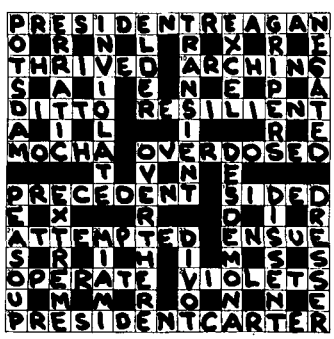
Answers to May's puzzle:



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> How much more difficult life would be for the heroin dealer if, instead of being paid with a small valise of $100 bills, he had to take a check, or a steamer trunk of $5s and $10s, or gems or rare stamps...

more difficult life would be for the average heroin dealer if, instead of being paid with a small valise of crisp $100 bills, he had to take a check, or carry a steamer trunk of $5s and $10s, or sign up for an extension course on how to assess the value of gems, rare stamps, and other forms of compact wealth. Meanwhile, the vast majority of Americans, of course, who hardly ever touch a big bill and certainly don't keep any of them lying around, would not be inconvenienced in the slightest.

Alas, some government policy planners are more troubled than titillated by this prospect. As a result, a rash of spurious objections has been directed against the recall plan.

First it has been suggested that the recall of all $100 bills on short notice would wreak havoc with the world's financial markets, and undermine the confidence that holders of U.S. currency have in the stability of the dollar. As a general proposition, this claim is utterly groundless. The dollar's exchange rate against other currencies depends on economic variables like the rate of inflation and the balance of payments, not such details as whether or not a particular series of $100 bills remains in circulation.

Another makeweight objection to the scheme refers to cost and administrative difficulties. But the expense of printing the bills needed to make the required exchanges would be relatively small—less than $100 million. There might be the cost of providing a few extra security guards around banks during the brief period allowed for exchanging the bills, and perhaps some added clerical expenses. These costs would be a relatively small burden for the banks to pay, considering everything the government has done for them over the years—including protecting them from competition, and providing free services, such as crisp new bills on demand. Nor are the logistical problems particularly serious. Overall, a recall seems no more difficult to arrange than, say, a typical program of automobile inspection—actually far less, since the holdings of big bills are highly concentrated and the burden of making the substitutions would fall on very few people.

## Keep Them Guessing

Another fear is that the criminal community might receive advance warning of a recall, and quickly convert all its cash into less vulnerable forms of wealth—paintings and gems and what have you. I do not deny the significance of the advance warning problem, but there are several precedents for the Federal government's ability to keep secret a major change in economic policy: Nixon's 1971 surprise suspension of gold convertibility for the dollar is one example. And even if word did leak out, the resulting scare would accomplish many of the goals of a recall, without the government having to lift a finger. As criminals scrambled to purchase cash "substitutes," they would bid up the price against each other. More important, without the convenience offered by cash, the conduct of business would be greatly complicated. After a short period of time,


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they would be forced to revert to cash use for the same reasons of practicality and anonymity that led them to trade $100s instead of Picassos in the first place. This is why the element of surprise could be retained, even if the government found it necessary to ask for legislation authorizing a recall. The Congress could grant standby authority to call in the cash, and even if an initial (and beneficial) scare resulted in some hoards being liquidated, the government could bide its time and keep the crooks guessing, springing a recall only when they had slipped back into their normal mode of behavior.

The only remaining complications worth considering have to do with foreign banks, and foreign users of U.S. cash. There's the argument that professional criminals might be able to avoid the impact of a recall by making sophisticated cash transfers to foreign banks after the recall was announced. Overseas, the bills could presumably be traded in without the IRS probing around. But this would be a very costly route for many American cash hoarders to use in such a short period of time, especially if the recall were accompanied by stiff customs inspections to catch cash caches leaving the country. In addition, foreign *bank* holdings could be swapped for in advance of a general currency recall, so that only non-bank foreign entities would be left with greenbacks. Given the substantial leverage the Fed enjoys with many foreign banks, there are several other regulatory devices that could shrink this loophole to what we economists like to call a "second order" problem. But, frankly, I'm not going to tell you *all* the government's options, since that would only make them less effective if the government ever decided to use them. Unless you are an important Treasury official, in which case give me a call. (This offer good only for Assistant Secretaries and above.)

Finally, we have what might be called the Afghan Rebel problem. Remember that among the recent heavy users of American cash were various international operators who need to discreetly finance political intrigue and armed conflict around the globe. I have no particular fondness for these types, but there is the possibility that some of them are engaged in pursuits many would regard as necessary—like bankrolling the Islamic insurrectionists who are causing so much trouble for the Russians in Afghanistan. If you support the rebels, the prospect of a cash recall is troubling, conjuring up the image of heroic *Mujhadeen* crawling on their bellies through Soviet helicopter fire as they attempt to make their way to the Pakistani border in order to exchange their American money before the recall deadline. But in the few areas around the world, like Afghanistan, where the United States really may want to sponsor political or military skullduggery, there are surely ways we can do so even in the face of our own currency recall. It might even have a beneficial effect if the government had to decide which *sub rosa* undertakings were worth the effort.

Indeed, all of the alleged obstacles to a successful cash recall seem far from insurmountable. They seem, in fact, to be precisely the sort of problems we pay the GS-16s in the Treasury and State departments to solve. The last argument against the scheme would question its value even if it were successful, characterizing it as just a one-shot action that would merely annoy the criminal community in the short run, and make no long-run difference. But this ignores the possibility that the recalls could be repeated, raising the costs and the uncertainty of criminal enterprise. It ignores the value of merely identifying the size and location of underground activity, as well as the present and future impact on the criminal sector of the "wealth shock" created when some of the illicit cash hoarders have to swallow their stockpiles.

More fundamentally, the "one-shot" objection really applies to all of the social policies we now use to attack criminal activity, since none of them pretend to eliminate it once and for all. A recall may sound like a messy proposition—but only until you compare it with the $20 billion or so we spend on our criminal justice system each year, and the increasingly complicated equipment demanded by the police and the courts. Or until you think about how much success their policies have had in reducing the level of criminal activity over the years. Currency reform, by crippling organized and disorganized crime in the short run, and raising the marginal costs of crime in the long run, would have a permanent effect. When you look at it this way, I suggest that the cash recall scheme is a bargain. ■



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# political book notes

*Public affairs books to be published in June*

**The American Way of Crime.** *Frank Browning, John Gerassi. Putnam, $14.95.*

**Atomic Energy: A New Start.** *David E. Lilienthal. Harper & Row, $8.95.*

**The Battle for Financial Security: How to Invest in the Runaway 80's.** *Rodger E. Bridwell. Times, $12.95.*

**The Childfree Alternative.** *Kate Harper. Stephen Greene Press, $11.95.*

**The Cost of Good Intentions: New York City and the Liberal Experiment.** *Charles E. Morris. Norton, $14.95.*

**Diary of the Cuban Revolution.** *Carlos Franqui. Viking, $25.*

**Drylongso: A Self-Portrait of Black America.** *John Langston Gwaltney. Random House, $12.95.*

**The Entrepreneur's Guide.** *Deaver Brown. Macmillan, $8.95.*

**Fat City: How Washington Wastes Your Taxes.** *Donald Lambro. Regnery/Gateway, $12.95.* Donald Lambro's got to have the tallest stack of 3-by-5 cards in Washington. For 405 pages he hits you with item after item of obvious government waste, sometimes a dozen items per page. This isn't a book, it's a list.

You don't know which is more remarkable—Lambro's reportorial skills and dedication to his task, or Washington's inexhaustible supply of different ways to throw away money. Lambro covers the spectrum, from comic self-indulgences (my favorite: $64,000 for a film teaching Navy officers how to impress society women at dinner parties) to institutionalized inflation guarantees (like revenue-sharing, wherein the federal government sends $8 billion of money it doesn't have to states that are running surpluses).

Half the book discusses the general categories of waste. The other half is Lambro's list of 100 "nonessential programs" that should be eliminated tomorrow. Among them: all regional commissions; the "Women's Bureau"; Congress's Florist Service; the Mexican-United States Defense Commission; USDA grading of tobacco; the Office of Small Pox Eradication (last case, 1963—budget, $1.2 million); and the National Board for the Promotion of Rifle Practice.

You get a slightly airsick feeling bumping along from abuse to abuse, and the book makes it worse with a condescending format. Almost every paragraph has its key words italicized. "GAO investigators said that all too often recommendations are *ignored* by higher-ups" . . . "HEW revealed that *friends and relatives* had obtained millions in consulting contracts" . . . . "Wasn't this the type of costly program Jimmy Carter had told Califano the nation *could not afford* ?" Lambro even italicizes "understatement" ("in a classic case of bureaucratic *understatement*"), adding an entirely new dimension to what the word understatement means.

One reason the average taxpayer never does seem to get mad as hell about Washington is that the abuses are so many and so bewilderingly flagrant, his brain goes on overload. Unfortunately Lambro—a veteran UPI Capitol Hill reporter, with a sophisticated political understanding that never shows in this card-file book—probably has done little to change that. If he had devoted even a little of *Fat City* to a sympathetic understanding of *why* so many nonsense programs exist, explaining that bureaucrats and politicians want make-believe work to do and journalists want make-believe stories to cover, the book would have been even more valuable. The reasons *why* Washington is Fat City, not the details of where the fat is fried, is what would make people mad as hell.

*—Gregg Easterbrook*

**The Future of U.S. Politics in An Age of Economic Limits.** *Bruce M. Shefrin. Westview, $24.50.*

**Go Quietly. . . or else.** *Spiro T. Agnew. Morrow, $10.95.* There is nothing so low that a sleazy thug, blinded by greed, will not stoop to. Spiro Agnew proved that before, and he proves it again with *Go Quietly. . . or else.*

The book is being hyped as an account of how death threats from Alexander Haig forced Agnew to resign in 1973. The pages aren't exactly cluttered with evidence of this point; in fact, there is none. Agnew bases his entire case



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on this chilling ultimatum from Don Vito Haig: "The President has a lot of power, don't forget that." The malicious subtlety of this threat is indicated by the fact that Agnew never mentioned it till now. Apparently, it took him seven years to figure out what Haig meant.

On page 15, there appears a paragraph which should have caused the typesetting computer at Morrow to explode, and loud klaxons to sound at the mental institution nearest Agnew's home:

"What was I, Ted Agnew, doing in this courtroom, suddenly the defendant in the criminal trial? My whole experience with the law had been as a lawyer and teacher, not a felon. I loved the orderliness of the law, its rote and unhurried logic. How many times had I stood in courtrooms like this as a respected officer of the court? How could a lifetime of work and accomplishment—that had led me to the second-highest office in a nation of 220 million free people—be destroyed in an afternoon? The numbness in me spread. . . ."

The book is dedicated to Frank Sinatra.

—*G.E.*

**Hard Feelings: Reporting on Pols, the Press, People, and New York.** *Ken Auletta. Random House, $12.95.*

**Human Scale.** *Kirkpatrick Sale. Coward, McCann & Geoghegan, $14.95.*

**Jack.** *Herbert S. Parmet. Dial, $14.95.* This, the first of two volumes, takes us through 1959 and is the most thorough biography of JFK to date. It's an impressive job—although marred by a few stunning factual errors, such as the declaration that Cord Meyer had died by 1961. The National Student Association knows better.

**Last Stand at Rosebud Creek: Coal, Power and People.** *Michael Parfit. Dutton, $14.95.*

**Lawyers on Trial.** *Philip M. Stern. Times, $12.95.* An excerpt appears in this issue, beginning on page 34.

**Look Now, Pay Later: The Rise of Network Broadcasting.** *Laurence Bergreen. Doubleday, $12.95.*

**No Margin for Error: America in the Eighties.** *Howard H. Baker, Jr. Times, $11.95.*

**Oil, War and American Security: The Search for a National Policy on Foreign Oil, 1914-1947.** *Michael B. Stoff. Yale, $15.*

**Our Hysterical Heritage: The American Presidential Election Process, Out of the Mouths of Babes.** *Harold Dunn. Stemmer House, $7.95.*

**Partisan Justice.** *Marvin Frankel. Hill and Wang, $9.95.* A dull but convincing argument against the adversary system. Worth wading through.


**"Enchanting"***

**"Oz Elliott is a great editor and a gentleman, and his book expresses this extraordinary contradiction with charm and high style.... A fascinating behind-the-scenery tour of that strangest of media worlds—the weekly newsmagazine."** —RUSSELL BAKER

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**VIKING**

**Osborn Elliott The World of Oz**

**An Inside Report on Big-Time Journalism by the Former Editor of *Newsweek***




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**Playing to Win.** *Jeff Greenfield. Simon & Schuster, $11.95.*

**The Politics of Regulation.** *James Q. Wilson, ed. Basic, $18.95.*

**Powers of the Weak.** *Elizabeth Janeway. Knopf, $13.95.*

**Public Entrepreneurship: Toward A Theory of Bureaucratic Political Power.** *Eugene Lewis. Indiana, $22.50.*

**The Reserve Mining Controversy: Science, Technology, and Environmental Quality.** *Robert V. Bartlett. Indiana, $17.50.*

**The Road to the White House: The Politics of Presidential Elections.** *Stephen J. Wayne. St. Martin's, $10.95.*

**Ropes of Sand: America's Failure in the Middle East.** *Wilbur Eveland. Norton, $16.95.* Another kiss-and-tell book by a former CIA agent, but one who enjoyed the embrace. (The CIA is trying to censor the book anyway; publication may be delayed till mid-summer.)

Eveland was Allen Dulles's Middle East operative during the 1950s. He claims that the CIA has been saying since 1948 that Israel will never be secure until the displaced Arabs have an autonomous homeland. The CIA is trying to help the Palestinians? No wonder they're getting nowhere.

Eveland fondly details his involvement in an abortive 1956 coup in Syria. The CIA couldn't find anything objectionable about the Syrian government but the British insisted it was rabidly pro-communist. At the same time, Egypt's Gamal Nasser nationalized the Suez Canal management company (Egypt already owned the canal itself), and the British began depicting Nasser as Leon Trotsky's long-lost brother. Washington bought it, even though Nasser had repeatedly made offers of alignment with the U.S. He gave up only after John Foster Dulles withdrew support for the Aswan Dam project—and did so in a manner calculated to humiliate the Egyptian leader.

The British and French persuaded Israel that 1956 was an ideal time to invade Egypt because what the CIA called "the silly season" was under way—a U.S. presidential campaign, when everybody would be afraid to do anything critical of Israel. (The silly-season factor persists, as anyone who followed the U.N. settlements vote two-step is aware.) In a triumph of planning, the Syrian coup was launched on *the same day* as the invasion. The coup, of course, collapsed—it was being staged by moderate Syrians who claimed that Israel wasn't expansionist and imperialism was dead. These ideas were the main casualties of the Suez war, Eveland says—turning most Arabs against the West and against anything but a gelded Jewish state.

Eveland's life as a spook seems to have consisted mainly of lunching with ambassadors, reading newspapers, and conducting clandestine operations against rivals within the CIA. He has a remarkable memory for the sequence of raised eyebrows and the brands of whiskey consumed. Wandering the streets to ferret out information wasn't for him; it seems almost incidental that he was in the Middle East at all. Like other Middle East CIA agents, he was given a cover name drawn randomly from an Australian phone book. His: "Perry M. Chapworth." Since there were no Australians in Araby, he might as well have worn a name tag saying, "Hello, I'm with the CIA." After somehow escaping from Syria, he was rewarded with a big car and a chauffeur for further work in Lebanon. "So much for secrecy," he writes.

Among his duties was to quiz Arab leaders on which weapons they wanted. When he met Lebanese President Camille Chamoun, leader of what was then a tranquil country, Chamoun said he wasn't interested in weapons. If you want to do us a favor, Chamoun said, buy Lebanese apples—a healthy economy means more to us than guns. Eveland says he was taken aback by "this overwhelmingly sane request." And what did he do about it? Nothing, apparently. The incident is never mentioned again, forgotten in the CIA's hurry to pass around the bombs and bribes needed to insure the region's potential for self-destruction.

—*G.E.*

**Shrinking History: On Freud and the Failure of Psychohistory.** *David E. Stannard. Oxford, $12.95.*

**Small Town America: A Narrative History 1620 to the Present.** *Richard Lingeman. Putnam, $15.*

**U.S. Business in South Africa: Economic, Political, and Moral Issues.** *Desaix Myers III. Indiana, $17.50.*

**Vatican Diplomacy and the Jews During the Holocaust, 1939-1943.** *John F. Morley. KTAV Publishing, $20.*

**War and Hope.** *Prince Norodom Sihanouk. Pantheon, $10.95.*

**You Can Beat City Hall.** *W. Bertrand Richland. Rawson, Wade, $9.95.*

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GUESS THE AUTHOR Answer:
(from page 33)

The author of that remarkable poem was none other than. . . . Karl Marx. Called "The Awakening," it is taken from *Karl Marx, Romantic Irony, and the Proletariat: The Mythopoetic Origins of Marxism* by Leonard P. Wessell, Jr. The book contains 55 pages of Marx's early romantic poems.



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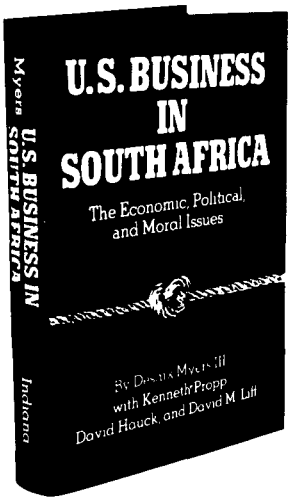


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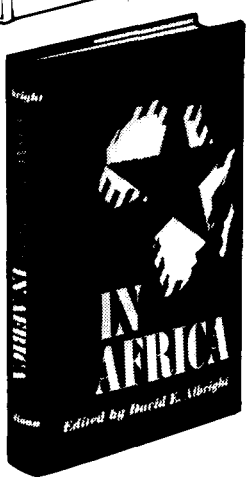


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